TALISMAN

ENERGY

1996 TALISMAN ENERGY INC. ANNUAL REPORT

CORPORATE PROFILE

Talisman Energy Inc. is an independent, Canadian-based, international upstream oil and gas company whose main business activities include exploration, development, production and marketing of crude oil, natural gas and natural gas liquids. The Company's production comes from Canada, the North Sea and Indonesia. Talisman is active in a number of high-potential international exploration areas, including Algeria, Trinidad and Peru.

Talisman's extraordinary results stem from successful exploration and development programs in and around the Company's core areas supported by strategic acquisitions. The Company has consistently replaced its production through the drill bit, while achieving competitive finding, development and operating costs.

Talisman (TLM) is a widely-held company listed on the Toronto, Montreal and Vancouver stock exchanges. The Company currently has 109 million issued shares and is included in the TSE 35 index.

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TALISMAN'S RESULTS

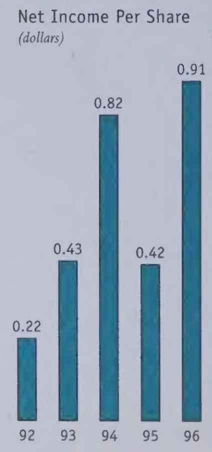
TALISMAN IN 1996

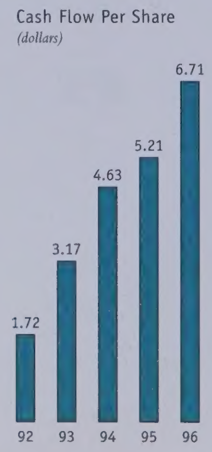
Drilling success, strategic acquisitions, diversification of markets and geographical areas, and a strong asset base combined to produce another record year for Talisman. Major operating and financial results include:

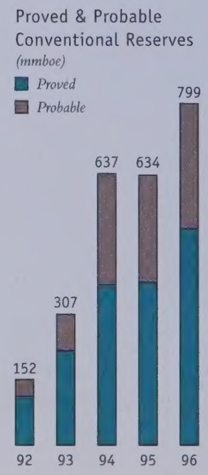
- cash flow of $6.71/share, an increase of 29%; total cash flow of $697 million
- net income of $0.91/share, an increase of 117%; total net income of $95 million
- production of 171,000 boe/d, an increase of 16%; oil production of 99,960 bbls/d up 29% and natural gas production of 647 mmcf/d, relatively unchanged
- capital spending of $1.1 billion; December 31, 1996 long term debt of $899 million (1.3 times annual cash flow)
- proved reserve additions of 186 mmboe, 302% of 1996 production
- 88% drilling success rate on 670 gross wells
- proved finding and development costs of $3.66/boe (five year average $4.83/boe)
- operating expenses of $4.61/boe, an increase of 6%, reflecting a greater percentage of higher netback, North Sea production
- general and administrative costs of $0.90/boe, a 15% decrease from 1995

In February 1996, Talisman was included in the TSE 35 index. In May, the Company issued 12 million shares at $31 per share to help finance its growing portfolio of investment opportunities. Talisman shares closed the year at $45.60, an increase of 65% over year-end 1995.

On February 12, 1997, Talisman announced its intention to offer to purchase all of the outstanding common shares of Wascana Energy Inc. Talisman's offer consisted of cash of $18.50 or 0.41 of a Talisman common share for each Wascana share. The offer limits the aggregate consideration to 40% of the Wascana shares being tendered for cash and 60% tendered for Talisman shares. As part of the acquisition, Talisman would also assume Wascana's long term debt which, at December 31, 1996, had a book value of $244.8 million. The total cost of this acquisition is estimated at $1.8 billion.







HIGHLIGHTS

	1996	1995	1994
Financial (millions of dollars unless otherwise stated)			
Cash flow	**697.4**	502.3	361.5
Net income	**94.9**	40.5	64.0
Exploration and development expenditures	**556.9**	378.5	327.4
Per common share (dollars)			
Cash flow	**6.71**	5.21	4.63
Net income	**0.91**	0.42	0.82
Production (daily average production – gross volumes)			
Oil and liquids (bbls/d)			
Canada	**41,767**	38,116	35,313
North Sea	**33,038**	18,778	7,652
Indonesia	**22,621**	18,121	6,392
Synthetic oil	**2,534**	2,527	2,425
Total oil and liquids	**99,960**	77,542	51,782
Natural gas (mmcf/d)			
Canada	**557**	581	481
North Sea	**90**	69	15
Total natural gas	**647**	650	496
Total (mboe/d)	**171**	147	102
Prices			
Oil and liquids ($/bbl)			
Canada	**23.95**	20.58	18.62
North Sea	**27.31**	23.18	22.09
Indonesia	**27.22**	23.76	21.50
Synthetic oil	**29.09**	23.81	21.71
Total oil and liquids	**25.93**	22.06	19.63
Natural gas ($/mcf)			
Canada	**1.71**	1.37	1.89
North Sea	**3.37**	3.63	3.78
Total natural gas	**1.94**	1.61	1.95

Western Canada

Maintaining a strong Canadian home base is an important component of Talisman's growth strategy. Canada provides dependable production and growth opportunities, as well as technical and operating support for Talisman's other areas of interest. Significant results in 1996 include:

- *oil production of 44,301 bbls/d, an increase of 9%; operated oil production increased 22%*
- *natural gas production of 557 mmcf/d, a decrease of 4%; operated natural gas production was relatively unchanged, reflecting a shift in emphasis to oil; non-operated production decreased 13%*
- *total exploration and development spending of $327 million*
- *proved reserve additions of 25.9 mmbls of oil (169% of production) and 205 bcf of natural gas (100% of production)*
- *90% drilling success on 604 gross wells*
- *domestic proved finding and development costs of $6.73/boe*
- *operating costs of $3.63/boe*

The Company's 1996 exploration successes include discoveries at Monkman, Clarke Lake, Chinchaga, Pheasant and Melrose. Development successes occurred in all core areas, specifically Chauvin, Carlyle and Lac La Biche.

East Coast Canada

Talisman's opportunities in eastern Canada include the following:

At Whiterose, Talisman has a 19.5% working interest. The Company expects to participate in a seismic survey this year, with possible drilling in 1998.

Talisman has a small interest in Terra Nova Far East and is discussing participation in field development with its partners.

The Company also has a number of interests in discoveries in and adjacent to the proposed Sable Island gas project.

In 1996, the Company and its partners abandoned the wildcat well, EL 1008, drilled in western Newfoundland. While Talisman maintains an 18.75% interest in the licence, there are no plans to drill in 1997.

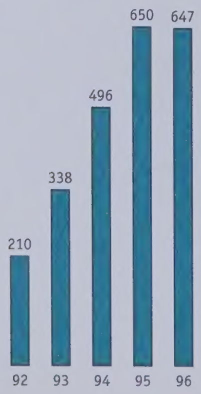
Trinidad and Peru

Trinidad and Peru are high-potential exploration plays where Talisman utilizes its knowledge of thrust and fold belts.

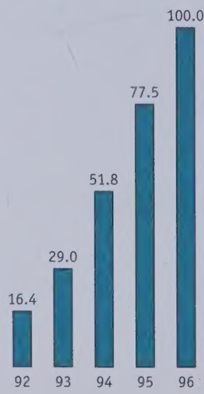
The offshore oil prospects in Trinidad are believed to be an extension of the El Furial trend in eastern Venezuela. Talisman currently has a seismic program underway, with first drilling later this year or early in 1998.

The Company has purchased a 20% interest in Block 66 in the Ene Basin, Peru, near the giant Camisea gas condensate discovery. Acquisition and interpretation of seismic has begun.

Natural Gas Production
(mmcf/d)



Oil & Liquids Production
(mbbls/d)



Algeria

Over the past three years, Algeria has been one of the most prolific hydrocarbon exploration basins in the world.

Talisman has a 35% interest in the 713,000-acre Block 405. In 1996, the Company drilled three oil discoveries, although to date, no proved or probable reserves have been booked.

The MLNE-1 discovery confirmed the extension of the giant BKE/ORD field onto the northeast corner of Block 405.

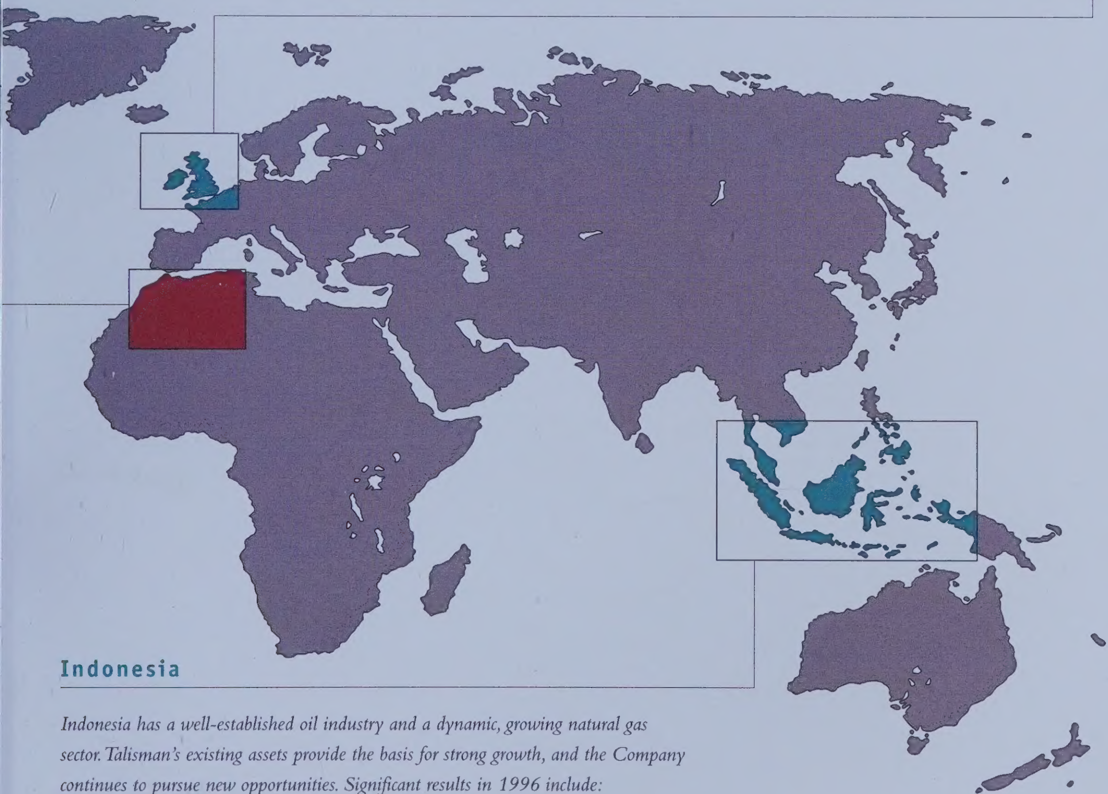
The MLN-1 discovery, which tested at 15,800 bbls/d, confirmed a structure with large potential in the middle of the Block. The subsequent MLN-2 discovery was drilled successfully to define the field boundaries to the northwest of the initial discovery.

North Sea

In the North Sea, Talisman is building its portfolio of high working interest core properties near existing infrastructure. In 1996, Talisman took major steps to add significant growth potential: in January, the Company purchased Goal Petroleum, acquiring producing fields, fields under development and extensive North Sea exploration acreage; in the third quarter, the Company bought a 52% interest in the undeveloped Ross oil field; and effective December 11, 1996, Talisman acquired operated reserves and interests in the Beatrice, Buchan and Clyde fields. Significant results in 1996 include:

- *oil production of 33,038 bbls/d, up 76% with the addition of 15,700 bbls/d through the acquisition of Goal Petroleum*
- *natural gas production of 90 mmcf/d, an increase of 30%, due to higher demand and the start-up of Trent and Tyne*
- *total exploration and development spending of $125 million*
- *proved reserve additions of 53 mmbls of oil (436% of production) and 100 bcf of natural gas (303% of production)*
- *approval of West Brae/Sedgwick development project*

Talisman made three exploration discoveries in 1996 on newly acquired acreage including a significant oil discovery at Hannay, near the Buchan field, and gas discoveries at Waveney (Block 48/17c) in the southern North Sea and at K/9ab in the Netherlands.

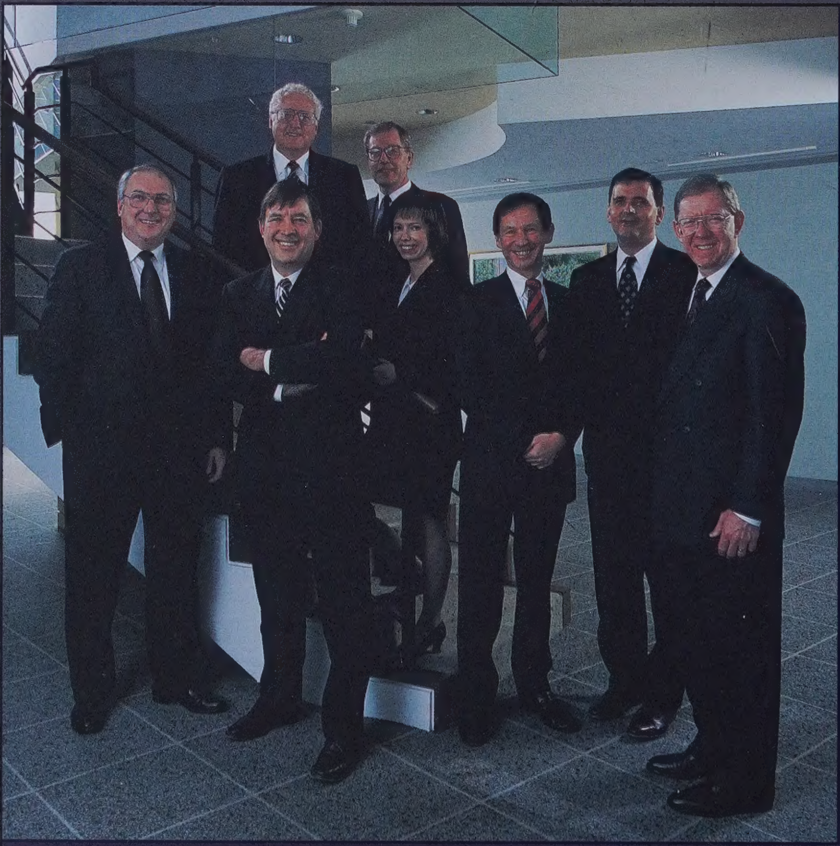


Indonesia

Indonesia has a well-established oil industry and a dynamic, growing natural gas sector. Talisman's existing assets provide the basis for strong growth, and the Company continues to pursue new opportunities. Significant results in 1996 include:

- *oil production of 22,621 bbls/d, an increase of 25%, largely from continued drilling success on the OK Block*
- *total exploration and development spending of $73 million*
- *proved reserve additions of 15 mmbls of oil (181% of production) and 332 bcf of natural gas*

The Company achieved significant milestones in the Corridor Gas Project in 1996, by extending the Production Sharing Contract to 2023, beginning construction, and discovering a major gas reservoir at Sumpal-2. All project contracts have been signed, with production startup expected in mid-1998.



Ted Bogle, Vice-President, Exploration

Jim Buckee, President and Chief Executive Officer

Bob Mitchell, Vice-President, Canadian Operations

Bruce Waterman, Vice-President, Finance and Chief Financial Officer

Jackie Sheppard, Vice-President, Legal and Corporate Projects, and Corporate Secretary

Nigel Hares, Vice-President, Frontier and International Operations

Bob Redgate, Vice-President, Human Resources and Corporate Services

Joe Horler, Vice-President, Marketing

Talisman had another great year in 1996. I would like to emphasize how much Talisman's success is attributable to the impact of our employees knowing the corporate direction and making the right decisions. Thank you all for your hard work and dedication in 1996.

In addition to achieving exceptional operating and financial results, the Company established a strong base for future growth. The acquisition of Goal Petroleum and addition of operated interests in the Ross, Beatrice, Buchan and Clyde fields positioned Talisman as a growing force in the North Sea. Progress on the Corridor Gas Project, combined with exploration success, continues to increase the value of our Indonesian assets. Talisman's strength, skills, and unique investment inventory will underpin continued, successful growth.

Strategy

The objective of Talisman's strategy is to increase share value by growing hydrocarbon production and consequently cash flow per share. Behind Talisman's strategy is the premise that hydrocarbons are a finite source of energy for which there are few alternatives. The Company develops its business plans towards gaining control of large volumes of hydrocarbons at the lowest possible cost to meet growing demand resulting from population growth and economic activity. Talisman is an upstream oil and gas company. The major elements of Talisman's strategy are:

Low risk: The Company focuses on regions with proven oil and gas potential, developed infrastructure and established fiscal regimes.

Timely return on investment: Talisman strives to shorten the time between investment and production, and to achieve pay-out in two-to-three years. The Company maintains a 'development hopper' (inventory of investment projects) by either exploring or acquiring, whichever is most cost effective.

Diversity: Basin and market diversity allows Talisman to select the best from a variety of investment choices.

Operatorship and control: Talisman establishes high working interests and operatorship, whenever possible, to control costs and timing.

The Company will maintain and grow its western Canadian base as a source of financial and operational strength. The North Sea and Indonesia provide strong production growth opportunities. Talisman is investing in a few select, high-potential international exploration plays for longer term growth.

Our technical expertise and financial resources enable Talisman to undertake investments that are beyond the grasp of many of our competitors while being too small for major integrated oil and gas companies. There is a large niche for companies of our size, our skills and our motivation. As we grow, the number of attractive investment opportunities increases.

We view both exploration and acquisition as valid methods for providing targets for the drill bit. Consequently, as we continue to look for opportunities that will add value and cash flow, acquisitions will likely play a role in Talisman's future growth.

Canada will remain central to Talisman's strategy for the future. A powerful home base provides us with a reliable source of opportunities, skills and people. Accordingly, on February 12, 1997, Talisman announced its intention to offer to purchase Wascana Energy Inc. to increase our home base commensurate with our international growth. I believe the offer for Wascana promises to deliver good value to both Wascana and Talisman shareholders.

In the North Sea, Talisman is rapidly building on the entry position acquired in 1994. The addition of the Beatrice, Buchan and Clyde producing fields gives Talisman immediate operating expertise, talented people and first rate safety, environmental and management systems. We are excited about the number of opportunities coming to light and Talisman expects to produce these properties for many years to come. The Ross field is Talisman's first venture as operator of a new North Sea field development. The North Sea presents many substantial opportunities which we will continue to evaluate and pursue.

Talisman's production from Indonesia is positioned to double in the next three years, with increases primarily coming from the Corridor Gas Project which is due to commence production in 1998. We have tripled oil production from the OK Block since its acquisition, continued to increase production at the Tanjung waterflood project, and are working on a major new exploration play.

In addition to the abundant opportunities in our core areas, Talisman is exploring a number of high-potential plays. To date, the Company has drilled four wells in Algeria, all of which have discovered hydrocarbons. Although the subtle nature of the trapping makes it difficult to predict the ultimate potential of this play, we are very optimistic. There are four or five wells planned for 1997, and it is likely we will decide on future development plans for Algeria later this year. No reserves for Algeria have been booked yet.

1997 Outlook

We are very positive about all areas of our operations. At year-end, Talisman was producing approximately 117,000 bbls/d of oil and liquids worldwide and we expect to increase this level in 1997. For example, the winter drilling season in Canada has been typically successful for Talisman as we continue to increase oil production.

Over the past year, Talisman has deliberately kept its operated Canadian gas production at rates similar to 1995, reflecting prevailing low gas prices and attractive oil opportunities; however, we have maintained a strong inventory of gas prospects, particularly in northeast British Columbia. In response to changing gas price expectations, we may increase our natural gas drilling program in 1997.

Talisman's North Sea production increases in 1997 will be led by the Beatrice, Buchan and Clyde fields which are currently contributing about 20,000 bbls/d. This production rate is expected to increase as a result of Talisman's activities in and around these fields.

In the last quarter of 1996, Indonesian oil production averaged over 25,000 bbls/d. We expect an increase in 1997 due to improving performance at the Tanjung waterflood project and continued development in the OK Block.

In total, the Company expects a 15-20% production increase this year on capital spending of approximately $850 million. With production commencing from major projects such as Corridor and Ross in 1998, we are confident of continued increases in Talisman's underlying production profile.

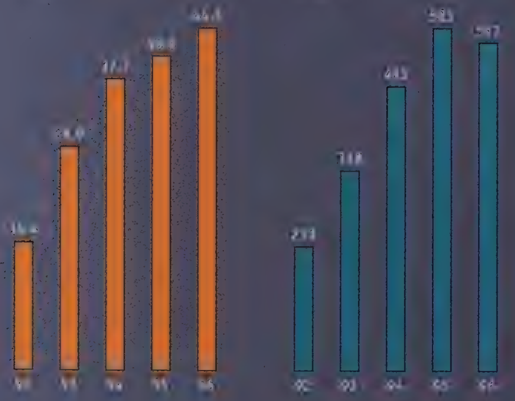
In 1996, demand for oil reached new highs based on continuing growth in the Pacific Rim and stable growth in the OECD. This demand was firm in the face of recent higher prices. Energy prices remain low in real terms. I am confident that the fundamentals are positive for oil prices; nonetheless, the Company bases its plans on conservative prices and assumptions. We have the financial capacity and portfolio of opportunities to take full advantage of higher prices as they arise.

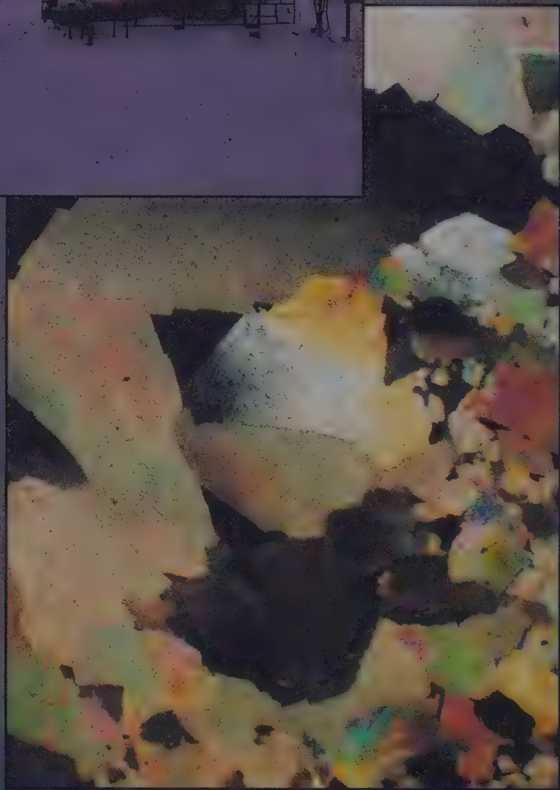
Sadly, Talisman's former Chairman, Keith McWalter, passed away unexpectedly in February of this year. Keith was highly regarded in the industry. His distinguished approach to the business belied an intense enthusiasm for the major strides made by Talisman. He will be greatly missed by me, among his many friends at Talisman.

I would also like to thank the Board and our new Chairman, Peter Widdrington, for their continuing support this past year.

JW Buckee

James W. Buckee
President and Chief Executive Officer
March 5, 1997





Middle Devonian Slave Point Formation, British Columbia, Canada. Intercrystalline pores (black) in hydrothermal or saddle dolomite. These pores form the effective reservoir of the Sextet Slave Point "B" Gas Pool.

Maintaining Talisman's strong Canadian home base is a major component of the Company's growth strategy. Talisman's diverse Canadian activities enable the Company to build and enhance its worldwide technical and operating expertise. As well, the Canadian base provides a dependable source of production and growth opportunities. The Company controls land and infrastructure and maintains high working interests in its core areas to manage costs and exploration and development timing. Talisman consistently replaces more than 100% of its production through drilling while achieving top quartile finding, development and operating costs: 1996 operating costs averaged $3.63/boe and domestic proved finding and development costs averaged $6.73/boe.

Canada Highlights	**1996**	1995	1994
Production			
Oil and liquids (bbls/d)	**41,767**	38,116	35,313
Syncrude (bbls/d)	**2,534**	2,527	2,425
Natural gas (mmcf/d)	**557**	581	481
Total production (boe/d)	**100,016**	98,656	85,859
Proved reserves			
Oil and liquids (mmbls)	**115.1**	104.5	103.1
Natural gas (bcf)	**1,551.4**	1,550.4	1,520.9
Total reserves (mmboe)	**270.2**	259.5	255.2
Capital expenditures (millions of dollars)			
Exploration	**91.1**	89.7	96.8
Development	**236.1**	153.0	152.2
Total capital expenditures	**327.2**	242.7	249.0

1996 Drilling (number of wells)	**Gross**	**Net**
Oil	417	231.2
Gas	128	59.4
Dry	60	36.1
Total wells drilled	605	326.7

1996 Land holdings (acres)	**Gross**	**Net**
Developed	2,075,800	714,720
Undeveloped	7,139,346	2,773,598
Total acreage	9,215,146	3,488,318

Details can be found under "Supplementary Information"
10 mcf of natural gas equals 1 boe

In 1996, Talisman's Canadian production averaged 100,016 boe/d. The Company emphasized oil and liquids exploration and development projects in 1996. Total oil and liquids production increased by 9%, while operated production increased 22% over 1995, reflecting exploration and development success in all core areas. Talisman maintained its rate of operated natural gas production through 1996; however, non-operated production declined by 13%, resulting in an overall 4% decline in total natural gas production.

The Company drilled 349 operated and 256 non-operated wells in Canada with a 90% success rate. In 1997, Talisman plans to drill 380 operated wells and 280 non-operated wells.

Capital spending in 1996 totalled $327 million with 52% directed at oil projects, compared with 36% in 1995. Expected 1997 exploration and development spending will total $298 million, of which half will be directed at oil projects. The Company replaced 169% of oil production and 100% of natural gas production. Talisman is well-positioned to take advantage of improved natural gas prices and maintains a substantial inventory of exploration prospects.

Carlyle

This past year was the fourth year of an expanding and very successful drilling program at Carlyle, Talisman's largest operated Canadian oil property. The Company drilled 93 vertical and horizontal wells and added 6.8 mmbls of proved reserves. Oil production averaged 11,214 bbls/d in 1996, a 35% increase over 1995.

Talisman drilled three successful exploration wells in 1996, resulting in new pool discoveries at Pheasant and Melrose. To date, 2 mmbls of proved and probable reserves have been added and these properties are currently being delineated and developed.

Canadian Oil Properties

Major Properties	Average Working Interest (%)	Production (bbls/d) 1996	1995	1994
Operated				
Carlyle	75	**11,214**	8,326	7,355
Chauvin	95	**5,638**	4,224	3,717
Warburg	72	**3,130**	2,957	3,049
Shaunavon	63	**3,094**	2,708	2,894
Greater Arch	86	**2,319**	1,906	1,822
West Central Plains	74	**1,249**	1,373	960
Other	83	**2,746**	2,507	2,435
		29,390	24,001	22,232
Non-operated				
Joint Venture	–	**12,377**	14,115	13,081
Syncrude	1.25	**2,534**	2,527	2,425
		14,911	16,642	15,506
Total		**44,301**	40,643	37,738

During 1996, Talisman installed two different types of downhole water separation systems which have proven to be successful in the Carlyle area. The Company plans to use these systems to economically exploit smaller pools with high water cuts, decreasing the cost of surface facilities.

In 1996, Talisman added over 120,000 net acres of land through freehold acquisitions and provincial land sales. Seismic evaluation and land acquisition during 1996 have created a strong inventory of prospects. Talisman has broadened its activity to encompass near field exploration opportunities along the Mississippian trend and a new exploration program at Wapella. Talisman has a comprehensive plan for future production growth in Carlyle. In 1997, the Company plans to spend $54 million and drill 80 development and 22 exploration wells, of which at least one will test deeper Ordovician targets.

Shaunavon

At Shaunavon, Talisman expanded its development program in the three core operated units at Instow, Dollard and Rapdan, increasing oil and liquids production by 14%. The Company drilled 24 wells and expenditures totalled $8.6 million. Spending in 1997 will total $8 million and include 30 wells.

Chauvin

The very successful program at Chauvin continued into its fifth year in 1996, setting a production record at this 40-year-old property. The Company drilled 100 wells which, together with waterflood optimization of the field, increased production by 33% and added 7.1 mmbls of proved reserves. Six of nine exploration wells were successful, adding 1.7 mmbls of proved and probable reserves. Talisman anticipates further reserve additions as these discoveries are delineated in 1997.

Drilling Summary

Area	Oil	Gas	Dry	Total	Success Rate (%)
Carlyle	92	–	1	93	99
Chauvin	95	2	3	100	97
Warburg	30	–	3	33	91
Shaunavon	24	–	–	24	100
Monkman	–	5	–	5	100
Greater Arch	5	9	12	26	54
Northern Plains	–	5	2	7	71
Lac La Biche	–	40	16	56	71
Other	–	3	2	5	60
Total	246	64	39	349	89
Total non-operated	171	64	21	256	92
Total gross wells	417	128	60	605	90
Total net wells	231.2	59.4	36.1	326.7	89

The Company acquired 42,000 net acres of land, making it the most active purchaser around the Chauvin area in 1996. The Company's position at Chauvin was strengthened with the purchase of partner interests in key areas and the acquisition of an adjacent property. Talisman will continue its program of land acquisition, infill, step-out and exploration drilling in 1997. Plans include $38 million in capital spending, 110 development and 10 exploration wells.

Talisman also expanded its pipeline and custom treating facilities at Chauvin in 1996 to maintain its strategic heavy oil marketing position. Pipeline throughput averaged 37,922 bbls/d in 1996, up 26% from 1995. Throughput in the custom treating facilities averaged 3,406 bbls/d in 1996, a 10% increase from 1995.

Warburg

The sweet light crude in the Warburg area provides Talisman's highest domestic netbacks, averaging over $18/bbl in 1996. Talisman drilled 33 oil wells during the year, including two successful horizontal wells. Development of the recently acquired Knobhill property through vertical and horizontal drilling has increased its production by some 150%. The Company's infill drilling program will continue into 1997 with plans for 26 oil wells and 17 injector conversions. The Company plans to spend $8 million at Warburg in 1997.

Monkman

Monkman is Talisman's largest natural gas producing area. The Company has a large land position, high working interests and controls infrastructure through operatorship. In 1996, Talisman reduced its production at Monkman to 135 mmcf/d to match existing firm service capacity more closely during the recent period of low natural gas prices.

Talisman continued its successful exploration program in the area, drilling and completing five wells in 1996, three of which were tied in and producing by year-end. The Sukunka c-27-B well, which tested at rates of 44 mmcf/d, was put on stream in the fourth quarter and set new records for low costs and short drilling time. The Company continued to reduce well completion and tie in costs in the area during the year. In total, Talisman spent $31 million at Monkman in 1996.

Canadian Natural Gas Properties

Major Properties	Average Working Interest (%)	Production (mmcf/d) 1996	1995	1994
Operated				
Monkman	58	**135.2**	144.1	83.0
West Central Plains	74	**75.6**	83.8	87.9
Lac La Biche	82	**73.1**	69.9	37.5
Greater Arch	77	**69.8**	58.7	59.7
Northern Plains	88	**17.4**	12.4	–
Alberta Foothills	85	**8.1**	4.0	–
Hatton	–	–	–	24.5
Other	56	**18.4**	25.0	21.0
		397.6	397.9	313.6
Non-operated		**159.6**	183.1	167.6
Total		**557.2**	581.0	481.2

Plans for 1997 include seven exploration wells and expenditures of $33 million, with emphasis on the Murray River area. A central dehydration facility, with 90 mmcf/d capacity, is planned for construction at Murray River in 1997 to handle increased production.

Talisman continually examines ways to lower costs and create new opportunities in the area. The Company is currently evaluating a number of new technologies, including remote sensing, acid gas removal, and downhole gas/water separation and disposal.

Northern Plains

Talisman's Northern Plains production increased 40% in 1996. The Company drilled seven wells, including three exploration discoveries which added 41 bcf of proved reserves. Spending in the area totalled $20 million. Additional water handling facilities will be completed in 1997, increasing the production capacity of the area.

The Company continued the development of the North Chinchaga field in 1996 with one successful horizontal well. In addition, the production facility was debottlenecked, increasing oil production to over 1,200 bbls/d.

Talisman continued to expand its land base in the area by adding over 40,000 net acres in 1996. Talisman's 1997 exploration program will continue to emphasize prospects close to infrastructure where production can be tied in quickly. The Company plans to drill one development well and four vertical exploration wells during 1997, primarily targeting large pools. Expected spending in 1997 will total $15 million.

Greater Arch

The Greater Arch is a multi-zone oil and gas area with extensive infrastructure. Talisman's natural gas properties in the Greater Arch area include Pouce Coupe, Gordondale, Belloy and Teepee as well as oil properties at Clairmont, Progress and Rigel. Talisman operates four gas plants in the area and has working interests in an additional four. Total production in the Greater Arch region increased by 20% in 1996 with spending of $40 million.

During the year, Talisman acquired a new property at Clairmont and built facilities to bring previously shut-in production on stream, resulting in a 60% increase by year-end. Since the acquisition of Teepee in 1993, Talisman's production has tripled to 18 mmcf/d. Both Teepee and Talisman's gas plant at Belloy set production records in 1996, with further growth anticipated in 1997.

In 1996, the Company drilled 26 wells in the area including two exploration discoveries at Webster. This program added over 5.2 mmboe of proved and probable reserves.

Talisman is targeting multiple prospective zones in its core plays and plans to drill 35 to 40 wells in 1997. During the coming year, the Company will also debottleneck the Teepee plant and expand nearby pipeline capacity. Talisman expects to spend $30 million in the area in 1997.

West Central Plains

West Central Plains is another area of multi-zone oil and gas potential with extensive infrastructure. The Company continues to focus on liquids rich natural gas opportunities which can be brought on stream quickly. Within this region, the Company's major asset is the Edson natural gas property.

In 1996, Talisman shipped over 18 mmcf/d of new third-party gas to the Edson gas plant through a converted oil pipeline. In 1997, the Company expects to add significant new third-party volumes, both through the existing pipeline and a new raw gas gathering system which could extend some 160 km northwest of the plant. This additional infrastructure will allow the Company to access its extensive deep gas prospect inventory in the Berland River area.

The Company plans to drill up to four exploration wells on deep gas plays in 1997. Total spending in West Central Plains is expected to be $11 million.

Lac La Biche

Lac La Biche is Talisman's major shallow gas producing area and is the Company's lowest-cost gas area: 1996 operating costs averaged $0.20/mcf. During 1996, the Company added new compression, over 50 kilometres of pipeline and 50,000 net acres of land. The Company will continue to expand its drilling, seismic and land acquisition programs in 1997. The 1996/97 winter drilling program, which includes 70 wells, is currently underway. Talisman will spend $20 million in the area in 1997.

Alberta Foothills

Alberta Foothills is a new core gas area for Talisman, where the Company is using horizontal drilling to maximize deliverability from the reservoirs. Talisman's major property in the area is Blackstone/Cordel, where production in 1996 doubled to over 8 mmcf/d. In 1996, the Company participated in five wells, including two successful horizontal and one operated vertical well, all of which were tied in by year-end. In 1996, capital expenditures of $17 million included drilling and completion, seismic work and the acquisition of a significant tract of land at Lovett River. In 1997, Talisman plans to drill one horizontal exploration well and three horizontal development wells at Lovett River. Talisman's spending in the Alberta Foothills area is expected to total $19 million in 1997.

Acquisitions and Divestitures

Asset trading is important to Talisman as the Company continues to increase its working interests in core areas. In 1996, there were 72 transactions, worth approximately $100 million. Talisman's western Canadian gross well count was reduced by 9% through rationalization activities during 1996. This reduction in low working interest wells, combined with Talisman's successful 1996 drilling program, increased the Company's operated share of production by 4.5% to 69.1%.

Marketing

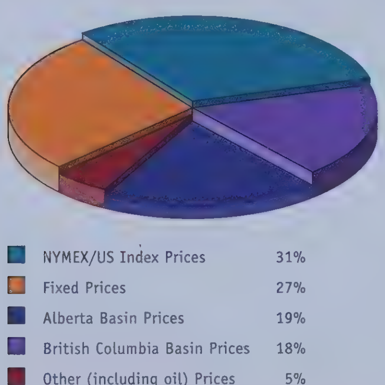
The benchmark WTI price averaged US$22.00/bbl in 1996, up US$3.70/bbl from 1995 as world oil demand reached 72 mmbls/d and all but a small number of OPEC producers were at capacity. Talisman's realized domestic oil and liquids price averaged $23.95, up 16% from 1995. There was strong demand for all grades of Canadian crude oil during 1996. Pipeline capacity and apportionment of deliveries continued to be an industry issue, although Talisman was not adversely affected in 1996.

North American natural gas prices were volatile during 1996. NYMEX natural gas futures reached record highs in the first quarter of 1996 as a result of cold weather, supply concerns and storage draw-down. However, pipeline logistics and warm Pacific northwest weather constrained prices in Alberta and British Columbia. In the second half of 1996, this situation began to change when strong gas demand for electrical generation in California, followed by an early cold winter and storage concerns resulted in higher domestic prices. To illustrate, the benchmark British Columbia index price at Sumas averaged US$1.08/mcf for the 1995/96 contract year, but escalated to US$3.55/mcf for December 1996. However, towards the end of the first quarter of 1997, North American gas prices softened considerably.

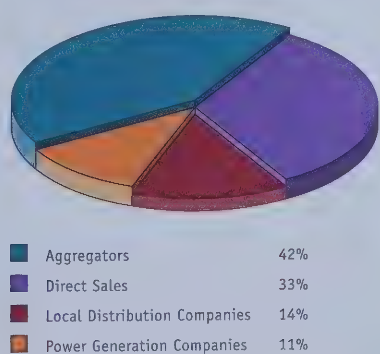
In 1996, Talisman linked a large component of its British Columbia gas production to US-based indices. Consequently, Talisman's realized gas netbacks in British Columbia were well above depressed regional prices. For the 1997 contract year, Talisman changed to a regional index price methodology, and benefited when the index increased rapidly in November 1996.

1996/97 Contract Year

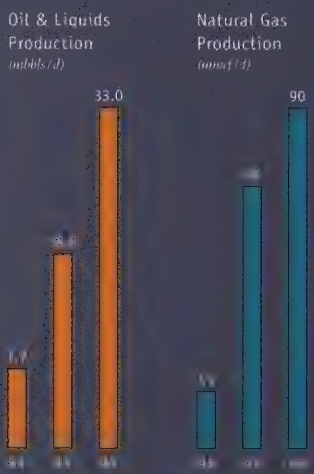
Gas Sales Price Portfolio



Gas Sales Customer Portfolio



Talisman-operated platform at Clyde in the central North Sea.



Upper Jurassic Fulmar Formation, Clyde Field, UK Continental Shelf.

This porous sandstone is one of two reservoirs in the Clyde field.

Porosity (blue) due to leaching of Rhaxella sponge spicules in very fine grained sandstone.

As part of its North Sea strategy, Talisman is establishing a portfolio of core properties with high working interests and growth potential near existing infrastructure. In 1996, the Company strengthened its position in the area by acquiring extensive North Sea properties, operatorship of three producing fields and one undeveloped property in the central North Sea.

In January 1996, the Company completed the acquisition of Goal Petroleum, adding 47 mmboe of proved and probable reserves at a cost of $333 million. In August 1996, Talisman acquired approximately 52% of the undeveloped Ross field, containing gross reserves of 60-100 mmbls. In December 1996, the Company completed the acquisition of operated interests in the Beatrice, Buchan and Clyde producing oil fields. Through activities in the past two years, Talisman has established a foundation to build core areas with strong growth potential.

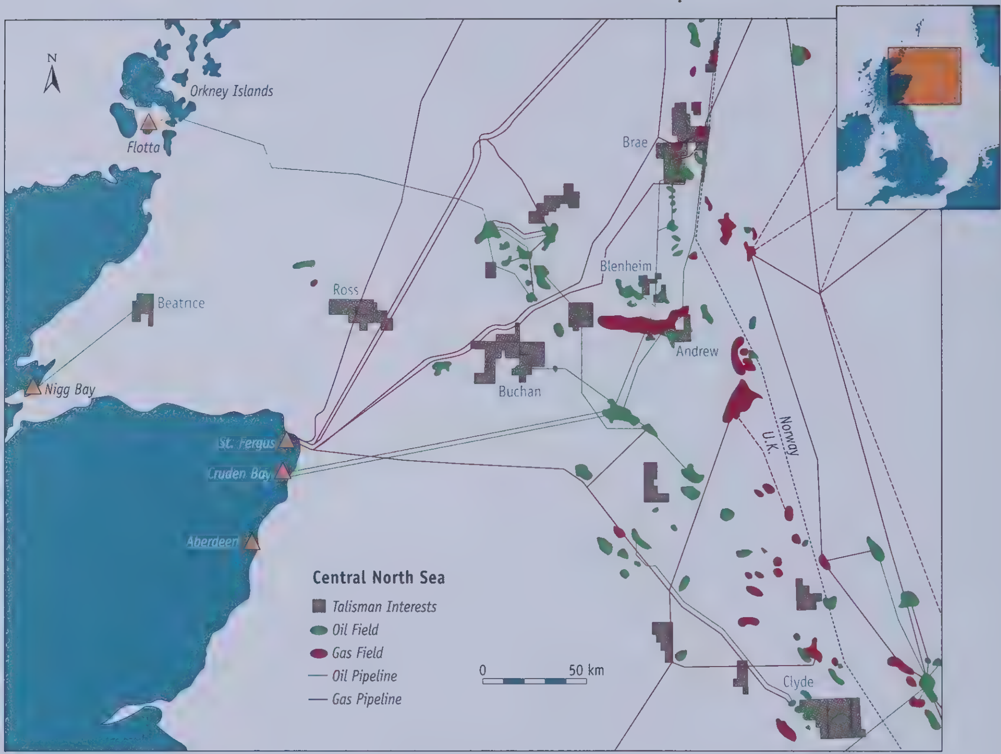
North Sea Highlights

	1996	1995	1994
Production			
Oil and liquids (bbls/d)	**33,038**	18,778	7,652
Natural gas (mmcf/d)	**90**	69	15
Total production (boe/d)	**48,077**	30,351	10,135
Proved reserves			
Oil and liquids (mmbls)	**71.8**	31.1	37.5
Natural gas (bcf)	**418.3**	351.4	331.2
Total reserves (mmboe)	**141.5**	89.7	92.7
Capital expenditures (millions of dollars)			
Exploration	**28.1**	29.3	10.8
Development	**96.7**	28.7	11.0
Total capital expenditures	**124.8**	58.0	21.8

1996 Drilling (number of wells)	**Gross**	**Net**
Oil	16	1.4
Gas	7	1.2
Dry	8	2.3
Total wells drilled	31	4.9

1996 Land holdings (acres)	**Gross**	**Net**
Developed	94,712	25,356
Undeveloped	2,640,751	621,586
Total acreage	2,735,463	646,942

Details can be found under "Supplementary Information"
6 mcf of natural gas equals 1 boe



In 1996, the Company's North Sea production averaged 48,077 boe/d, a 58% increase over 1995, due primarily to the addition of the Goal properties. Capital spending on exploration and development during 1996 totalled $125 million, up 115% from 1995. Eight exploration wells were drilled resulting in discoveries at Waveney (48/17c) in the southern North Sea, Hannay (20/5c-6) near Buchan, and K/9ab in the Netherlands sector. In 1996, the Company replaced 436% of oil production and 303% of gas production.

In 1997, Talisman will continue to develop these new assets. The Company plans to spend $220 million on North Sea capital projects in 1997 and will drill approximately 11 exploration wells, focusing on oil in the central North Sea and gas in the southern North Sea.

Beatrice, Buchan and Clyde Areas

The acquisition of the Beatrice, Buchan and Clyde fields established Talisman as an operator in the North Sea with all of the necessary management systems and personnel. The acquisition was completed in December 1996, and Talisman's share of production from the fields totalled 19,000 bbls/d.

Talisman sees a number of opportunities to invest in these fields to increase production, add reserves, extend the productive life of the fields, reduce unit operating costs, and add to tariff income from processing and transporting third-party fluids. The Company has initiated a detailed subsurface analysis on all three fields and is evaluating the exploration and development potential of prospects and discoveries in the vicinity. In 1996, Talisman participated in a significant oil discovery at Hannay (Talisman 20%), which tested 8,647 bbls/d. In 1997, an appraisal well will be drilled on this structure, which lies only eight kilometres north of Buchan.

North Sea Production

Major Properties	Average Working Interest (%)	Production 1996 [1]	1995	1994
Oil and liquids (bbls/d)				
Brae Area	13.1-14.0	**16,067**	18,669	7,652
Beatrice	43	**227**	–	–
Buchan	82.2	**2,042**	–	–
Clyde	51	**461**	–	–
Other	2.5-32.1	**14,241**	109	–
Total		**33,038**	18,778	7,652
Natural gas (mmcf/d)				
Brae Area	13.1-14.0	**57.8**	48.4	12.4
Trent & Tyne	20	**3.7**	–	–
Netherlands	5.4-10.25	**26.2**	21.0	2.5
Other	–	**2.5**	–	–
Total		**90.2**	69.4	14.9

(1) *Production from operated interests acquired at Beatrice, Buchan and Clyde was determined by using total production from December 11, 1996 divided by 366 days. Production from acreage acquired through Goal Petroleum plc, including a 17% interest in Buchan, was determined by using total production from January 11, 1996 divided by 366 days.*

At Beatrice, the Company's plans for 1997 include reprocessing and reinterpretation of 3-D seismic data, recompleting a number of wells, and increasing water injection. Talisman also operates the Nigg Bay terminal, approximately 80 kilometres west of Beatrice. In January, agreement was reached to ship oil from the Captain field through the Nigg Bay terminal, generating additional revenues. At Clyde, Talisman plans to drill three horizontal development wells in the upper sands in 1997. Total 1997 capital expenditures in the Beatrice, Buchan and Clyde areas are expected to be $48 million.

Brae Area

Talisman has interests in five producing fields in the Brae area: South Brae, Central Brae, North Brae, East Brae and Beinn, as well as interests in three fields under development at West Brae, Sedgwick and Kingfisher.

During 1996, commercial arrangements were completed for the development of the West Brae (Talisman 14%) and Sedgwick (Talisman 20%) fields, with first production expected at the end of 1997. At present, the Company anticipates its share of peak production to be approximately 4,500 bbls/d. The Company is also evaluating development of the Braemar discovery, which tested 3,400 bbls/d of liquids and 49 mmcf/d of gas in 1995.

Development of the Kingfisher field, in which Talisman has a minor interest, commenced in 1996, and will result in substantial tariff income for the Brae partners. First production from Kingfisher is scheduled for late 1997. Expansion of the SAGE terminal (Talisman 7%), to accommodate gas production from the Britannia field, will continue in 1997.

During 1996, six development and two sidetrack wells were drilled, including a successful sidetrack well at South Brae which is currently producing 6,000 bbls/d. One development and four sidetrack wells are planned for 1997. Talisman and its partners are exploring for smaller targets in the Brae area which can be tied back to existing facilities. Talisman's 1997 plans for the Brae area include exploration, development of existing discoveries, infill drilling in established fields, and development of additional third-party income. This program will include two or three exploration wells, with capital expenditures of $45 million in the area.

Ross Area

In August 1996, Talisman completed the acquisition of a 52% interest in the undeveloped Ross oil field which has been appraised by 10 wells since its initial discovery 20 years ago. Talisman expects to initiate development with three wells in Ross in 1997, and capital spending of approximately $50 million. The Company plans to develop the field using a tanker-based floating production storage and offtake system, and expects its share of production from the area to be approximately 20,000 bbls/d in mid-1998.

Andrew, Balmoral, Blenheim, Magnus and Wytch Farm

Talisman added these non-operated fields through the Goal acquisition. First production from the Andrew field commenced in June 1996, and from the South Magnus satellite in May 1996. Continued development of the offshore extension of Wytch Farm resulted in an increase in proved reserves of 4.2 mmbls. Talisman plans to spend approximately $16 million on these properties in 1997, including continued development at Andrew, Blenheim and Wytch Farm.

Southern North Sea

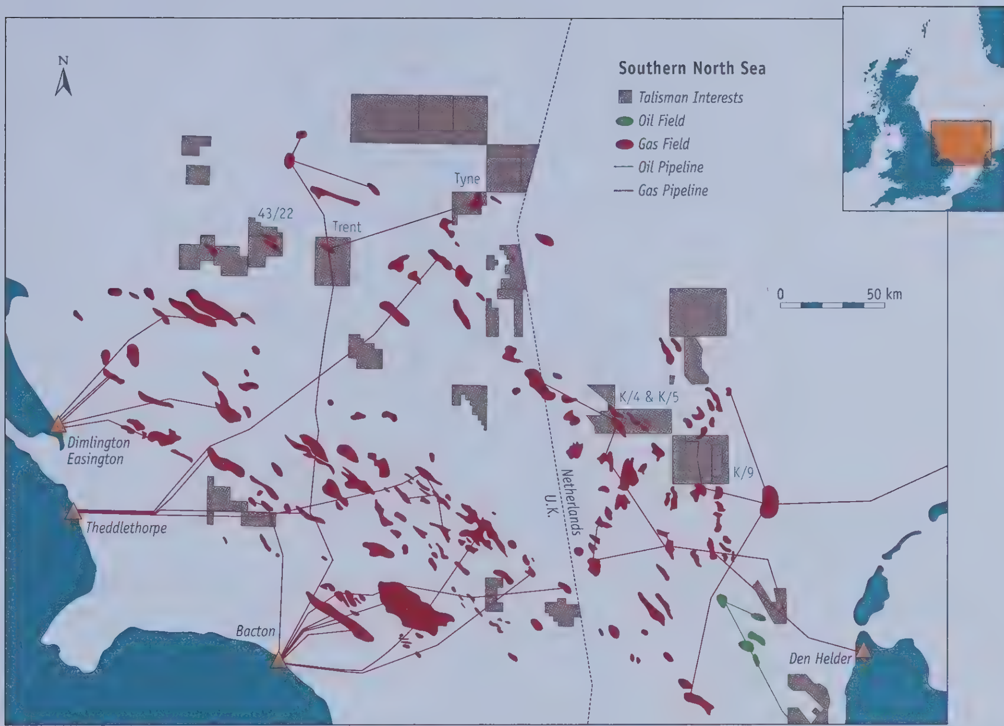
The Carboniferous region of the southern North Sea offers exploration and development opportunities which will allow Talisman to expand its gas business in the area.

In November 1996, gas production from the Trent and Tyne fields commenced through the EAGLES Transportation System. Talisman's share of production from these two fields is expected to average 28 mmcf/d in 1997.

Close to the Trent field, Talisman has interests ranging from 28% to 37% in three gas discoveries in Blocks 43/21 and 43/22. An appraisal program started in 1996 with 3-D seismic, and will continue in 1997 with an appraisal well on the 43/21 discovery, and re-entry and stimulation of one of the discovery wells in 43/22. If successful, Talisman anticipates first production in 1999. Two exploration wells are planned in the EAGLES catchment area in 1997.

The Waveney discovery (Talisman 25%) in the Rotliegendes area of the southern North Sea was drilled in 1996 and tested 37 mmcf/d of gas and 600 bbls/d of condensate. Talisman is currently evaluating subsea development and tie back to nearby facilities, with first production expected by the end of 1998. Appraisal of the 50/26b gas discovery made in 1995 was disappointing; the appraisal well tested gas with a CO_2 content higher than usual for the southern North Sea.

In the Netherlands sector, the K/5a Echo South (Talisman 10.25%) prospect tested at 67 mmcf/d and was tied in during 1996. Production will be added in late 1997 through the combined development of the K/5a Charlie and North Echo fields.



At the K/4b Alpha field, Talisman began new development in 1996; first gas is anticipated in late-1998. Additional low-risk exploration drilling will take place towards the end of 1997 to test some of the remaining prospectivity in the block. Continued development of these fields will maintain production from this area at current levels at least through 1999.

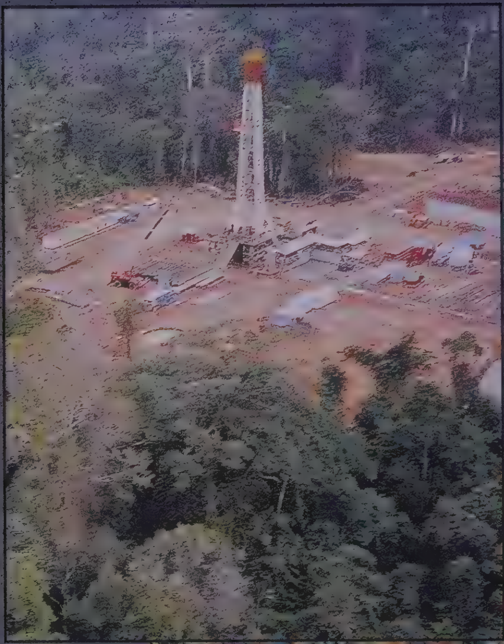
A successful exploration well was drilled in the K/9ab Beta structure (Talisman 6.7%), testing at 37 mmcf/d, with production expected by late-1998.

Marketing

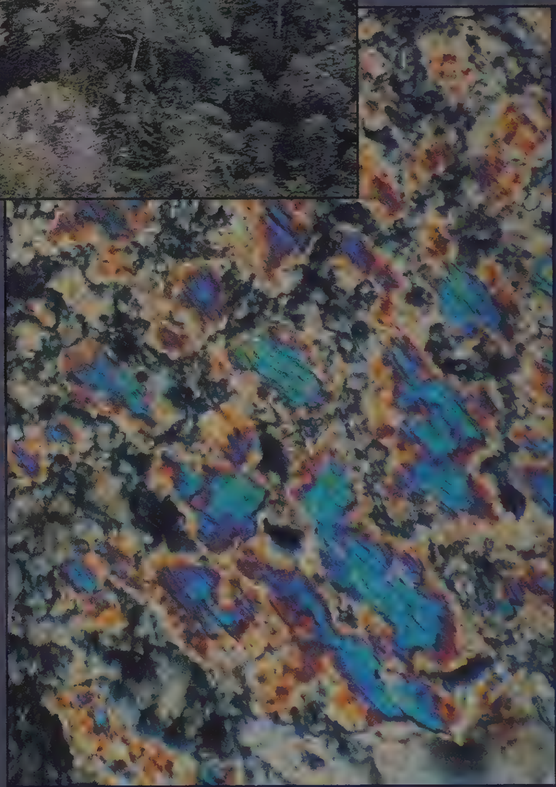
Talisman has expanded its international crude oil sales program to facilitate the sale of increased volumes from the Beatrice, Buchan and Clyde fields. Starting December 1996, Talisman now controls and markets 50,000 bbls/d of North Sea oil and liquids production.

During the 1996 gas contract year, Talisman gas sales increased as a number of new gas contracts came on stream including Trent and Tyne and Andrew associated gas.

Low UK gas prices prevailed over the first half of 1996; by mid-year, conditions had improved. As prices increased, Talisman entered the direct gas sales market and fixed terms for over 90% of available 1996/97 natural gas volumes at prices of around $3.50/mcf.



Corridor block appraisal well. First gas production mid-1998.



Tertiary Granite, Sumpal-1, Sumatra, Indonesia.

Microporosity between sericitic mica plates (striped blue) in altered granite.

The micropores provide a component of the reservoir for the Sumpal gas accumulation.

Indonesia has a well established oil industry and a growing natural gas sector. The objective of Talisman's strategy in Indonesia is to exploit its existing assets and to search for significant new growth opportunities. During 1996, the Company's production increased 25% to 22,621 bbls/d. In 1997, Talisman plans to spend $259 million on capital projects in Indonesia, with the Corridor Gas Project accounting for 75% of the total.

Indonesia Highlights

	1996	1995	1994
Production			
Oil and liquids (bbls/d)	**22,621**	18,121	5,919
Total production (boe/d)	**22,621**	18,121	5,919
Proved reserves			
Oil and liquids (mmbls)	**39.0**	32.3	27.2
Natural gas (bcf)	**332.0**	–	–
Total reserves (mmboe)	**94.3**	32.3	27.2
Capital expenditures (millions of dollars)			
Exploration	**11.0**	11.8	8.8
Development	**61.5**	47.9	15.5
Total capital expenditures	**72.5**	59.7	24.3

1996 Drilling (number of wells)	**Gross**	**Net**
Oil	19	9.5
Gas	4	2.7
Dry	6	3.3
Total wells drilled	29	15.5

1996 Land holdings (acres)	**Gross**	**Net**
Developed	312,427	136,267
Undeveloped	2,210,036	1,082,207
Total acreage	2,522,463	1,218,474

Details can be found under "Supplementary Information"
6 mcf of natural gas equals 1 boe

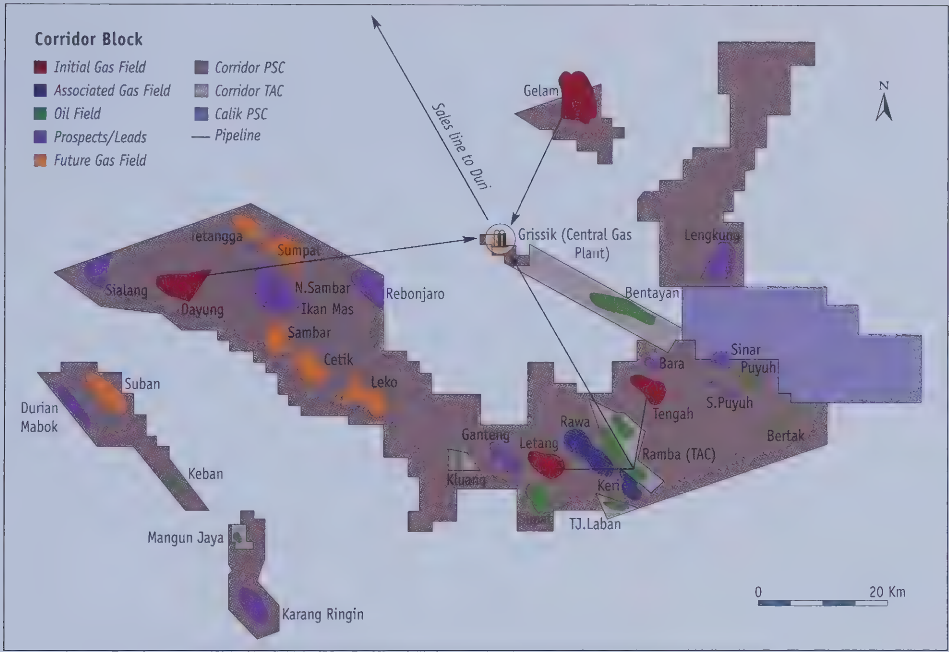
Corridor

The Corridor Gas Project will be Talisman's largest project in 1997. Talisman's wholly-owned indirect subsidiary, Talisman (Corridor) Ltd., has a 36% working interest in the project which is designed to produce approximately 300 mmcf/d of natural gas (110 mmcf/d net to Talisman). Most of this gas will be sold to the Duri steamflood project, approximately 540 kilometres to the north. Gas will be transported by a 28 inch pipeline owned by the Indonesian state gas company, PGN. Natural gas will displace approximately 50,000 bbls/d of crude oil currently being used as fuel at Duri. In exchange for this gas, the Corridor participants will receive Duri crude oil on an energy-equivalent basis. Additional natural gas will be sold to PGN through a spur line to Batam Island.

The project is on schedule, and the Company reached a number of important milestones during 1996. In October, the term of the Production Sharing Contract ("PSC") was extended to the year 2023 and improved revenue-sharing terms for natural gas sales were agreed to. As a result, Talisman transferred 332 bcf of natural gas reserves from the probable into the proved category. Pipeline manufacture and coating commenced late in the year, and the pipeline construction contract was awarded in December. Civil engineering work, design engineering and early construction commenced in 1996, and full construction started in February 1997. All major commercial and contractual arrangements were executed in February 1997. Production start-up is scheduled for the third quarter of 1998, with full shipments commencing by the fourth quarter of 1998.

The Corridor Gas Project will be partially funded by a project financing facility (US$180 million net Talisman) which was signed in February 1997.

In December, a successful appraisal well, Sumpal-2, tested 19 mmcf/d of sales gas from an 800 metre gas column. Based on the data from this well, independent engineering consultants increased their estimate of technically proved gas reserves in the Corridor PSC by 400 bcf, with an additional 500 bcf of probable reserves. Talisman has booked its share of these reserves as probable, pending delineation drilling at Sumpal and development plans for these reserves.



In 1996, the Company drilled seven wells on the PSC, resulting in five oil and gas successes. A program was implemented to enhance oil production in the PSC, increasing production to 2,380 bbls/d at year-end, up from 1,895 bbls/d in 1995. In the Corridor Technical Assistance Contract ("TAC"), Talisman undertook a similar program that resulted in six successful wells. Plans for 1997 include approximately 10 development wells in the TAC.

Talisman expects to spend $195 million in the Corridor area in 1997, up from $30 million in 1996. Talisman's gas drilling program will focus on expanding the resource potential at Corridor towards a threshold for an expansion of gas sales. Three exploration wells and five oil development wells are planned for 1997 in the PSC.

During 1997, Talisman was awarded a 40% interest in the Calik PSC, adjacent to the Corridor Block.

Indonesia Production

Major Properties	Average Working[(1)] Interest (%)	Production 1996	1995	1994
Oil and liquids (bbls/d)				
Ogan Komering	100	**12,593**	8,355	2,278
Corridor TAC	40	**5,344**	5,551	2,217
Corridor PSC	36	**2,068**	1,895	769
Tanjung EOR	100	**1,360**	1,274	273
Jambi EOR	40	**1,256**	1,046	382
Total		**22,621**	18,121	5,919

(1) *Interests of the Indonesian national oil company ("Pertamina"), other than working interests, are accounted for as royalties. Pertamina royalties are recorded using contractual rates in effect at the time of production.*

Ogan Komering

Talisman's share of production increased by 51% in 1996 due to the further extension of the Air Serdang field, continued development drilling and a redetermination of working interests. Talisman's working interest in the Air Serdang Unitized Area was increased from 55% to 64.4%. For a period of 12 months starting July 1, 1996, Talisman will recover 3,218 bbls/d to compensate the Company for past production. Talisman's working interest in the field may increase again in 1997, as a result of successful 1996 development drilling.

Spending in the Ogan Komering area during 1996 totalled $14 million with six successful development wells drilled in the Air Serdang field and one in the Guruh field. An exploration well and subsequent appraisal well discovered and tested hydrocarbons at Metur, however, this field is small and probably non-commercial. Although unsuccessful, this exploration program provided encouragement that new hydrocarbon discoveries can be made on the block.

In 1997, the Company plans to evaluate a project for the sale of gas from Guruh, Air Serdang and Mandala (a previously undeveloped gas discovery). Talisman plans to drill 14 development wells and two exploration wells in 1997, with total spending of $29 million.

Tanjung Raya

Tanjung Raya is a major oilfield located in Kalimantan with original oil in place of 600 mmbls. The reservoir was on primary production from 1961 to 1995, and Talisman commenced water injection in 1995 at rates of up to 140,000 bbls/d. Response to the waterflood has been slower than anticipated. In early 1997, the Company conducted fracture stimulations on three of 50 producing wells and production increased to over 1,900 bbls/d. Based on this success, an increased fracture stimulation program will be conducted in 1997.

In 1996, Talisman initiated a major operating cost reduction program. The Company anticipates that 1997 operating costs will be 38% below 1994 levels, when Talisman acquired the property. Plans for 1997 include $16 million in capital spending, including seven development wells and an extension of the fracture stimulation program.

Jambi

Enhanced oil recovery operations continued at the Kenali Assam field and commenced at the Tempino and Bajubang fields in 1996. Production increased by 20% to 1,256 bbls/d. In 1997, Talisman will participate in 77 well recompletions and waterflood operations at Tempino and Bajubang. Capital expenditures in 1997 are expected to be $4 million.

Cenako

Following evaluation of the Cenako acreage in 1996, the Company has given notice of relinquishment of the block.

Langsa

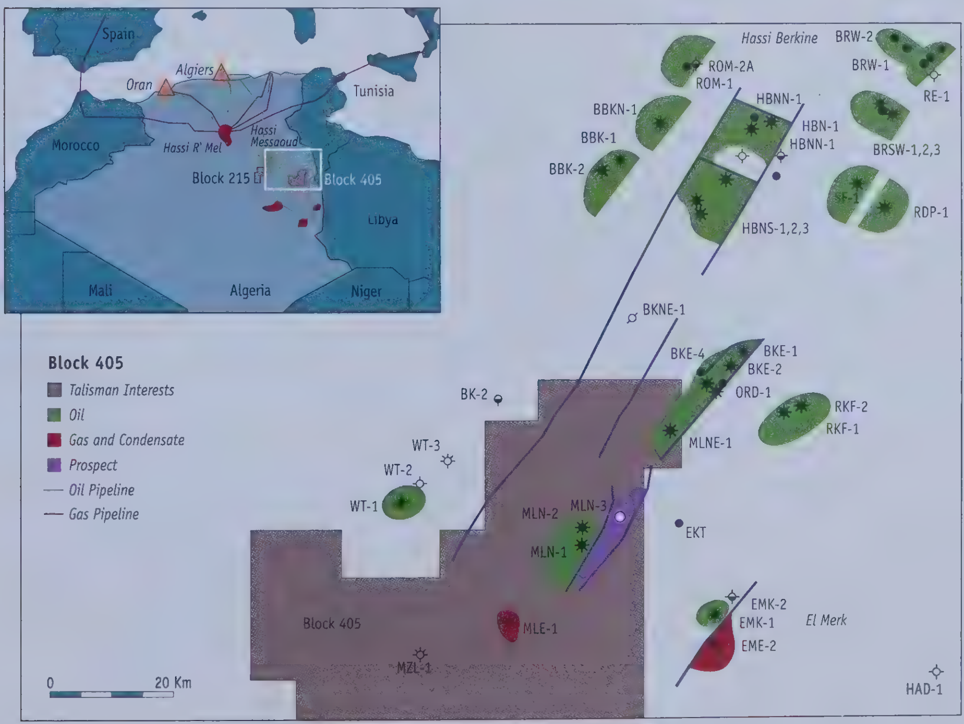
During 1996, Talisman farmed out a portion of its interest in the block on a seismic option agreement. Seismic is currently being evaluated and may lead to a well in the fourth quarter of 1997. Talisman has retained an option to participate in this well.

Algeria

Algeria is one of the most prolific hydrocarbon exploration basins in the world in terms of recent oil and gas discoveries. Talisman has a 35% interest in Blocks 215 and 405 in the oil-prone Ghadames Basin in eastern Algeria. Block 405 immediately offsets major new oil discoveries at Hassi Berkine and El Merk. Despite the subtleties and complexities associated with this play, Talisman has discovered hydrocarbons in its first four wells on this 713,000 acre block.

During 1996, Talisman drilled three successful wells in Block 405. The MLNE-1 well, located in the northeast corner of the block, tested 750 bbls/d, confirming the extension onto Block 405 of the BKE/ORD field which is estimated to have oil in place of two and one half billion barrels. In early 1997, Block 405 became a party to the unit. Talisman expects first production from the unitized area by the year 2000. Talisman plans to drill an additional well on the structure in 1997 as part of the field development plan.

During 1996, the Company also completed and tested two wells on the exploration discovery at MLN, located in the eastern part of the block. The discovery well, MLN-1, tested at rates of 15,580 bbls/d and 61 mmcf/d from three zones. An appraisal well, MLN-2, two kilometres to the northwest, was tested in December 1996. This well, drilled downdip on the structure, was located to define the oil/water contact and to test the pool boundaries. The well tested at 3,400 bbls/d and 9 mmcf/d from one of the three Triassic sands found in MLN-1. These wells confirm a significant hydrocarbon accumulation at MLN. At year-end, drilling commenced on MLN-3, five kilometres northeast of the MLN-1 location. This third well will assess the size of the MLN structure and allow consideration of development potential.



In 1996, Talisman spent $19 million in Algeria and plans to spend an additional $21 million this year. The Company plans to drill four or five wells in 1997, including one well on Block 215, located 105 kilometres west of Block 405.

East Coast Canada

Talisman holds various interests in the Jeanne d'Arc Basin off eastern Newfoundland, including a small interest in Terra Nova, a 19.5% interest in Whiterose, and a number of small interests in acreage within and adjacent to the proposed Sable Island Gas Project.

Plans for Whiterose are currently being formulated. Talisman expects to participate in a 3-D seismic survey over the field, beginning in 1997. Talisman also has a minor interest in Terra Nova Far East and is discussing participation in field development.

In western Newfoundland, Talisman drilled one wildcat well on Block EL1008 which was abandoned after producing water on test. Talisman maintains an 18.75% interest in the block, but there are no plans to drill on this acreage in 1997.

United States

Talisman has acquired a significant land position in the Nevada overthrust, where the Company is using its thrust and fold belt expertise. Talisman participated in two wildcat exploration wells during 1996 in order to gain subsurface information. Both wells were dry and abandoned; however, the Company obtained excellent geological information for seismic data correlation. Talisman is now defining its exploration prospects for drilling in late 1997 or early 1998.

Latin America

In Trinidad, the Company was awarded a 50% working interest in Block 2(ab) and 25% of Block 2(c) situated off the northeast coast. This is an area along trend from recent oil discoveries in the Venezuelan thrust and fold belt. An extensive 3-D seismic survey is underway and interpretation will begin in the second half of 1997. Talisman has committed to drilling a well in each block, with drilling expected in 1998.

In Peru, the Company has acquired a 20% interest in Block 66 in the Ene Basin close to the giant Camisea gas condensate field. Acquisition and interpretation of seismic data on Block 66 has commenced, with possible drilling in 1999.

Human Resources

Talisman continues to invest in employee training and development as part of the ongoing program to ensure that the Company's leadership and technical capabilities match its operational growth. Talisman emphasizes the link between corporate performance and individual reward through its stock option plan, savings plan and variable pay program.

Talisman continues to utilize third-party alliances and outsourcing arrangements to meet personnel and corporate service needs. This has proven very successful in providing Talisman with flexibility, access to resources and leading edge capabilities.

Talisman has achieved a 68% growth in production over the past two years while staff levels have increased only 5% during the period, to the current level of 791 employees.

Health, Safety and Environment

Talisman recognizes the importance of a high level of performance in areas of health, safety and environment ("HSE").

Environment planning in conjunction with asset acquisitions is an important aspect of Talisman's HSE management system. In 1996, approximately 80 Canadian properties were reviewed specifically for their environmental compliance. Internationally, the acquisition of the Beatrice, Buchan and Clyde fields was preceded by an extensive review of operational HSE performance, facility integrity, and abandonment liabilities and costs. Letters of Acceptance for the Talisman Safety Cases submitted for the Beatrice, Buchan and Clyde fields were received from the UK Health and Safety Executive in mid-December.

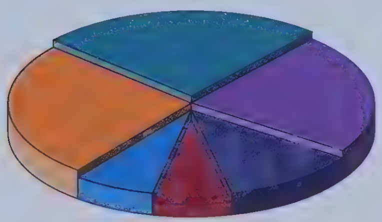
To ensure continuing HSE integrity, environmental and safety audits were completed at 32 operated production facilities in Canada and internationally during 1996. Third-party specialists participated in all audits. Talisman's Board of Directors is apprised of the Company's HSE performance at each Board meeting.

Consistent with the Company's commitment to the Federal Government's Climate Change Voluntary Challenge and Registry Program, Talisman continued to achieve its stated objective of year-over-year reduction in energy use and carbon dioxide emissions on a per unit of production basis.

Corporate Contributions

Talisman continues to support the communities in which it operates. During 1996, Talisman contributed $460,000 to local and national organizations.

Corporate Contributions



United Way	26%
Health & Welfare	25%
Civic Causes	23%
Culture	12%
Environment	7%
Education	7%

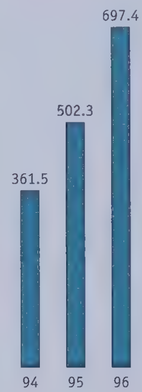
THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS INCLUDED ON PAGES 43 TO 59 OF THIS ANNUAL REPORT.

Talisman continued to create value for its shareholders through exceptional performance in 1996. Talisman's 1996 cash flow per share increased 29% to $6.71. Net income per share was $0.91, an increase of 117%.

This strong financial performance was driven by a 16% increase in total production and a 20% increase in overall prices. Talisman's crude oil and liquids production increased 29% over the prior year. Roughly two-thirds of this increase came from acquired Goal properties, with the remainder coming from successful drilling programs in western Canada and Indonesia.

A full year of production from the Beatrice, Buchan and Clyde fields and continued exploration and development success in western Canada and Indonesia are expected to provide continued growth in 1997. The Company also has a number of ongoing and planned projects which will contribute to additional growth in 1998 and beyond. These include: development of the Ross oil field in the North Sea, construction of the Corridor Gas Project in Indonesia, continued drilling in Algeria and exploration in Trinidad and Peru. On February 12, 1997, Talisman announced its intention to offer to purchase Wascana Energy Inc. If successful, this acquisition would double Talisman's undeveloped Canadian land base and provide a large inventory of drilling prospects. The addition of Wascana's production would increase Talisman's 1997 production by approximately 30%.

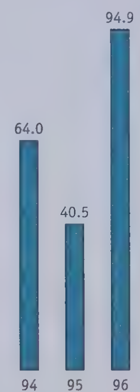
Cash Flow
(millions of dollars)



Financial Highlights

A 29% increase in oil and liquids production and an 18% increase in oil and liquids prices contributed to a 134% increase in net income and a 39% increase in cash flow in 1996. Talisman's realized natural gas price increased 20% over 1995. Gross sales increased 39% to $1.4 billion in 1996 from $1.0 billion in 1995. Oil and liquids revenues accounted for 68% of sales.

Net Income
(millions of dollars)



Royalties, operating expenses and depreciation, depletion and amortization ("DD&A") expense increased in 1996 as a result of increased production volumes. Unit operating costs increased to $4.61 per barrel of oil equivalent ("boe"), up slightly from $4.34/boe in 1995, as higher cost, higher netback, North Sea production constituted a greater proportion of total production. Increased exploration expense reflects a 40% increase in geological and geophysical spending as the Company prepares for increased exploration activity in 1997 and beyond. Dry hole expense increases primarily relate to the North Sea. Increased pre-tax income resulted in additional taxes in 1996; Talisman's effective tax rate remained relatively unchanged.

Net Income Variances *(millions of dollars)*

1995 Net income	40.5
Favourable (unfavourable)	
Oil and liquids volumes	190.6
Natural gas volumes [1]	16.8
Oil and liquids prices	128.1
Natural gas prices	59.9
Royalties	(79.9)
Other income	(1.9)
Expenses	
Operating	(54.5)
General and administrative	0.3
Depreciation, depletion and amortization	(51.5)
Dry hole	(39.3)
Exploration	(13.3)
Interest on long term debt	17.7
Other	(4.1)
Income and petroleum revenue taxes	(108.8)
Discontinued mining operations	(5.7)
1996 Net income	**94.9**

[1] *Natural gas volumes made a positive contribution to net income despite an overall reduction in gas production as the effect of increased, higher priced North Sea volumes more than offset the effect of Canadian production declines.*

Daily Production Volumes

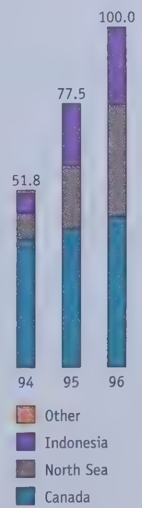
Talisman has almost doubled its oil and liquids production over the past two years through drilling success and strategic acquisitions.

The Company increased its operated Canadian oil and liquids production by 22% in 1996, led by exploration and development success at all of the Company's core properties. Total Canadian oil and liquids production increased 9%.

The addition of 15,700 barrels per day (bbls/d) from properties acquired through the purchase of Goal Petroleum plc ("Goal") on January 11, 1996 increased North Sea oil and liquids production by 76%. Production from the Beatrice, Buchan and Clyde fields was included effective December 11, 1996. Although not significant in 1996, Talisman expects the newly acquired interests in these fields to add 19,000 bbls/d in 1997.

Indonesian production increased 25% in 1996. Production from the Ogan Komering ("OK") Block increased 51% through drilling success and a redetermination of the Company's working interest in the Air Serdang Unitized Area from 55.0% to 64.4%. Starting July 1, 1996, for a one year period, Talisman will also recover 3,218 bbls/d and pay the associated capital and operating costs to recover past net revenues relating to Talisman's increased interest. Production response to the Tanjung waterflood project was slower than anticipated, but began to generate production increases in the latter half of 1996. Fracture stimulation of wells in late 1996 and early 1997 has also produced promising results.

Oil & Liquids Daily Production Volumes *(mbbls/d)*



Talisman maintained its operated Canadian natural gas production at 1995 levels, reflecting the gas price environment and a shift to oil drilling. The Company's non-operated production decreased by 13%, resulting in a 4% decline in total Canadian natural gas sales.

Talisman's North Sea natural gas production increased 30% in 1996, reflecting the Goal acquisition and the start of production from the Trent and Tyne fields in November.

Natural Gas Daily Production Volumes *(mmcf/d)*

Netbacks

Prices

World oil demand increased by 1.7 mmbls/d in 1996, one of the largest increases since the 1970s, and helped push West Texas Intermediate ("WTI") prices up 20% from 1995. Talisman's realized oil and liquids price averaged $25.93/bbl, up 18% from 1995.

United States ("US") natural gas spot prices averaged US$2.75/thousand cubic feet ("mcf") in 1996, up 63% from the previous year as strong, weather-related residential demand pushed US natural gas production to capacity. Canadian natural gas export prices increased with US prices during the year. Cold weather in the fourth quarter strained Canadian gas deliverability, pushing Alberta spot prices to highs of $3.50/mcf in January 1997. Talisman's realized Canadian natural gas prices increased 25% from 1995.

North Sea natural gas spot prices increased to $3.67/mcf in the second half of the year after averaging $3.09/mcf in the first six months. Overall, North Sea gas prices declined 7% in 1996.

Canada

	1996	1995	1994
Oil and liquids ($/bbl)			
Sales price	**23.95**	20.58	18.62
Royalties	**(6.01)**	(4.51)	(4.07)
Operating costs	**(3.01)**	(3.06)	(3.49)
Netback	**14.93**	13.01	11.06
Natural gas ($/mcf)			
Sales price	**1.71**	1.37	1.89
Royalties	**(0.19)**	(0.18)	(0.36)
Operating costs	**(0.41)**	(0.37)	(0.35)
Netback	**1.11**	0.82	1.18

Netbacks include hedging activities, but do not include synthetic oil or pipeline operations.

Oil and liquids royalty rates increased to 25.1% in 1996 (1995 – 21.9%; 1994 – 21.9%) as a result of improved prices and the expiry of royalty holidays on a number of Saskatchewan properties. Natural gas royalties declined to 11.1% in 1996 (1995 – 13.1%; 1994 – 19.0%). Beginning in the second quarter of 1996, the Alberta government reduced the effective royalty rate on natural gas to compensate producers for royalties overcharged in prior periods. An adjustment to 1996 and 1995 gas cost allowances was recorded in the fourth quarter and further reduced 1996 gas royalties. These reductions more than offset increases attributable to higher natural gas prices in 1996. Alberta Crown gas royalties for the past three years remain estimates pending receipt of final invoices from the Alberta government.

Canadian unit operating costs increased to $3.63/boe in 1996 (1995 – $3.44/boe; 1994 – $3.50/boe). Natural gas unit operating costs rose as a result of increased third-party processing fees, and the combination of lower

volumes and relatively fixed operating costs. Talisman continues to reduce oil and liquids unit operating expenses by adding low-cost, Company-operated production. Talisman's operated lifting costs are significantly lower than those on its non-operated properties.

Revenues from Talisman's share of Syncrude increased 23% over the prior year as a result of increased prices. Production and operating costs were relatively unchanged from the prior year.

North Sea

	1996	1995	1994
Oil and liquids ($/bbl)			
Sales price	**27.31**	23.18	22.09
Royalties	**(1.23)**	(0.17)	(0.30)
Operating costs	**(6.50)**	(5.63) [1]	(6.59)
Netback	**19.58**	17.38	15.20
Natural gas ($/mcf)			
Sales price	**3.37**	3.63	3.78
Royalties	**(0.15)**	(0.04)	(0.05)
Operating costs	**(0.76)**	(0.96) [1]	(1.10)
Netback	**2.46**	2.63	2.63

(1) *1995 operating costs are restated to reflect intracompany transactions.*
Netbacks include hedging activities, but do not include pipeline operations.

A majority of Talisman's 1996 North Sea oil and liquids production was marketed to The British Petroleum Company plc; however, a significant portion of Talisman's 1997 production will be marketed to a variety of purchasers.

Royalty rates increased in 1996 as a result of the addition of Goal properties which are subject to United Kingdom ("UK") royalties.

Unit operating expenses increased to $5.89/boe in 1996 (1995 – $5.67/boe; 1994 – $6.59/boe), reflecting higher operating costs associated with Goal properties. Unit operating expenses are expected to increase in 1997 as a result of additional production from the Beatrice, Buchan and Clyde fields.

Indonesia

	1996	1995	1994
Oil and liquids ($/bbl)			
Sales price	**27.22**	23.76	22.40
Royalties	**(8.06)**	(5.66)	(5.22)
Operating costs	**(6.17)**	(6.90)	(6.97)
Netback	**12.99**	11.20	10.21

Netbacks include hedging activities.

All of Talisman's Indonesian production is sold directly to the Indonesian national oil company, Pertamina, at prices referenced to world crude oil markets.

Royalties include Pertamina's share of profit oil from all producing areas and oil committed to the domestic market at reduced prices pursuant to contract terms. Talisman accounts for Indonesian royalties based on rates in effect at the time of production. Rates will increase significantly when Talisman's cost recovery pools are

depleted. These pools represent capital and operating expenditures that are deductible on a contract-by-contract basis from sales revenue, prior to determining Pertamina's share. The timing and extent of any royalty rate increases are dependent on future cost recovery pools, production and prices.

Talisman has significantly increased its OK Block production in the past two years without major capital expenditures. Accordingly, the cost recovery pools associated with the OK Block were fully depleted by mid-1996, resulting in increased OK Block royalties. Expected increases in Tanjung production, which is subject to a low royalty rate, did not commence until the second half of the year. As a result of these factors, the overall Indonesian royalty rate increased to 29.6% in 1996 (1995 – 23.8%; 1994 – 23.3%). Cost recovery pools for the Corridor PSC, Tanjung Raya and Jambi should be sufficient to avoid significant increases in royalties over the next three years.

Unit operating expenses declined 11% in 1996 as a result of the large increase in OK Block production.

Depreciation, Depletion and Amortization Expense

(millions of dollars)	**1996**	1995	1994
Canada	**219.5**	216.2	159.6
North Sea	**163.8**	118.0	36.8
Indonesia	**36.9**	34.9	13.6
Other	**0.4**	–	2.1
	420.6	369.1	212.1

The increase in total DD&A expense in 1996 reflects increased production. DD&A per boe decreased slightly to $6.73/boe in 1996 (1995 – $6.87/boe; 1994 – $5.67/boe) largely as a result of the Goal purchase.

Dry Hole Expense

(millions of dollars)	**1996**	1995	1994
Canada	**26.0**	19.1	19.7
North Sea	**34.7**	–	1.0
Indonesia	**2.7**	3.4	1.2
Other	**2.0**	3.6	10.8
	65.4	26.1	32.7

The major increase in dry hole expense in 1996 came from the North Sea and included significant drilling costs from 1995 which were evaluated and expensed in 1996. Included in 1996 dry hole expense for Canada are costs associated with the EL1008 well which was drilled on the west coast of Newfoundland.

Exploration Expense

(millions of dollars)	**1996**	1995	1994
Canada	**33.8**	33.6	30.4
North Sea	**13.6**	3.9	5.5
Indonesia	**4.2**	7.7	3.6
Other	**11.9**	5.0	4.9
	63.5	50.2	44.4

Exploration expense consists of geophysical and geological expenses, seismic, lease rentals, indirect exploration expenses, and mineral taxes on exploratory acreage. The increase in the North Sea reflects exploratory activity on acquired Goal acreage. Seismic costs incurred in 1996 in Algeria, Trinidad and Peru are included in the "other" category.

Corporate

General and Administrative Expense

General &
Administrative
Expense

Talisman has consistently reduced unit general and administrative costs. Total 1996 general and administrative expense remained relatively unchanged from 1995, despite the growth of the Company. While Talisman's revenues have grown 96% over the past three years, general and administrative expenses per boe have declined 17%.

Interest Expense

Interest expense declined $17.7 million in 1996 as a result of reduced debt levels, lower market interest rates and $5.1 million of capitalized interest associated with the Ross field and the Corridor Gas Project. Interest capitalization on these projects commenced in the fourth quarter.

Other Revenue and Expense

Talisman's interest in the Brae Forties pipeline in the North Sea generated a majority of the pipeline and custom treating tariffs included in other revenue. Included in other expense in 1996 are net pre-tax gains of $25.4 million (1995 – $39.3 million; 1994 – $8.8 million), primarily related to property dispositions and exchanges. These transactions relate to a continuing program of asset rationalization and consolidation in Canada.

Notes 10 and 11 to the Consolidated Financial Statements include details of the components of other revenues and expenses.

Income Taxes

Cash income taxes in 1996 primarily relate to UK operations and the OK Block and Corridor TAC concessions in Indonesia, where cost recovery pools on both concessions have been fully claimed.

Talisman currently has income tax pools sufficient to defer payment of cash income taxes in Canada until the year 2001.

The UK also levies Petroleum Revenue Tax ("PRT") on certain fields in the North Sea. Increased prices in 1996 generated additional PRT expense. Current PRT expense relates to properties acquired in the Goal acquisition.

Non-deductible DD&A shown in note 12 to the Consolidated Financial Statements relates to the difference between the purchase price allocated to acquired assets and associated income tax pools. The difference is amortized against income and has the effect of increasing the effective income tax rate.

Talisman is involved in discussions with tax authorities to determine the impact a recent Canadian court case will have on the Company's income taxes. The case, involving a major Canadian resource company, established principles which may result in higher resource allowance deductions than were previously claimed for certain taxation years prior to July 1992. The outcome of this matter, including timing for resolution, cannot be determined at this time.

Property, Plant and Equipment

The acquisition of Goal added properties valued at $380.2 million to property, plant and equipment. This included a number of producing properties as well as significant undeveloped discoveries and exploration blocks. Talisman also spent $556.9 million on exploration and development activities and $218.8 million on property acquisitions in Canada and the North Sea.

In August 1996, Talisman completed the acquisition of a 52% interest in the undeveloped Ross field. Development activities are planned for 1997 with first production in mid-1998.

Contractual requirements associated with the acquisition of the Beatrice, Buchan and Clyde fields were met on December 11, 1996, and operating results from the acquired properties have been recognized in the Consolidated Financial Statements since this date. On acquisition, Talisman assumed responsibility for future decommissioning and abandonment expenditures associated with the fields. Future decommissioning costs of $20.0 million were recorded at the date of purchase. Talisman's remaining unrecorded liability of $120 to $160 million will be recognized over the assets' productive lives using the unit of production method in accordance with Talisman's policy for site restoration costs.

Capital Expenditures

(millions of dollars)	**1996**	1995
Exploration		
Canada	**91.1**	89.7
North Sea	**28.1**	29.3
Indonesia	**11.0**	11.8
Other	**32.4**	18.2
	162.6	149.0
Development		
Canada	**236.1**	153.0
North Sea	**96.7**	28.7
Indonesia	**61.5**	47.9
	394.3	229.6
Exploration and development	**556.9**	378.6
Resource property acquisitions	**218.8**	106.9
Proceeds of disposition	**(57.8)**	(99.8)
Corporate	**7.4**	3.2
Net capital expenditures	**725.3**	388.9
Cash flow	**697.4**	502.3

Canadian exploration and development expenditures included drilling 605 (327 net) wells in 1996. Total Canadian expenditures of $327.2 million included drilling costs of $163.2 million and property, plant and equipment spending of $107.0 million.

North Sea expenditures for 1996 included drilling 31 (5 net) wells and development of Andrew, South Magnus and Trent and Tyne, all of which commenced production in 1996. Additional expenditures included exploration drilling on the newly acquired Goal acreage. Total spending of $124.8 million included drilling costs of $59.3 million and facilities development costs totaling $49.3 million.

Increased Indonesian expenditures reflect $29.7 million spent on the Corridor Gas Project and continued exploration drilling in the Corridor area. Funds were also spent on additional drilling at the OK Block and development expenditures at Tanjung. In total, Talisman drilled 29 (16 net) wells in Indonesia in 1996.

Included in other exploration costs in 1996 was $14.5 million to drill three wells in Algeria.

Resource property acquisitions included North Sea acquisitions and Canadian asset rationalization activities. Dispositions relate to Canadian asset rationalization activity.

Note 5 to the Consolidated Financial Statements identifies capital which was not subject to DD&A at December 31, 1996, including significant acquired probable reserve costs. Acquired probable reserve costs for the North Sea increased as a result of Goal, Ross and Buchan. Talisman received an extensive inventory of properties with probable reserves in the Goal acquisition which the Company plans to evaluate over the next three years. Value assigned to the Ross field will be transferred to development costs when project sanction is received and proved reserves are booked — anticipated to occur in mid-1997. Development expenditures will be depleted once commercial production commences in mid-1998. Reduced Indonesian probable reserve costs reflect the transfer of Corridor Gas Project reserves from the probable to proved category.

Liquidity and Capital Resources

Debt and Equity

Record cash flow and the proceeds from an equity issue exceeded Talisman's 1996 capital requirements and resulted in a reduction of long term debt at year-end. Talisman's debt to cash flow ratio of 1.3:1 at December 31, 1996, met the Company's standard of less than 2:1. Talisman's debt to debt-plus-equity ratio improved to 30% at December 31, 1996, from 36% at the end of 1995.

The acquisition of Goal in January 1996 was partially financed by a new $250 million unsecured interim bank credit facility. On acquisition, Talisman also assumed Goal's outstanding debt of $57 million which was refinanced in March from a new US$150 million unsecured revolving term credit facility.

On May 30, 1996, Talisman issued 12 million common shares at a price of $31.00 per share. Proceeds, net of related issue costs, were $357 million. Net proceeds were initially applied against long term debt, including the June 10 redemption of the $100 million 8.5% convertible subordinated debentures and repayment of the $250 million Goal acquisition facility.

In December 1996, the Company replaced the US$150 million facility and its $300 million and $400 million facilities with new unsecured revolving term credit facilities totaling $800 million.

The commercial paper market continues to offer the lowest cost source of funds to the Company. Accordingly, Talisman expanded the maximum amount of its commercial paper program in 1996 from $350 million to $450 million while maintaining its debt ratings. The Company's revolving credit facilities backstop the commercial paper program.

Maturities of Talisman's debt portfolio are spread over a number of years to mitigate refinancing risk and maximize operational flexibility.

The Corridor Gas Project will be partially funded by a US$450 million (US$180 million net to Talisman) project loan facility which was finalized in February 1997. The project sponsors, Talisman and Gulf Canada Resources

Limited, are indirectly assuming Pertamina's obligation to fund approximately 80% of Pertamina's 10% interest in the project. Funds derived from Pertamina's 10% interest in project cash flow will first be applied to payment of interest and principal on the loan prior to any distributions to Pertamina.

Talisman will increase its long term debt in 1997 to fund significant development expenditures in the North Sea and Indonesia; however, debt is expected to remain below two times cash flow. The increase is expected to correspond to 1997 borrowings under the Corridor project loan facility.

Financial leverage ratios	**1996**	1995	1994
Long term debt [1] to cash flow [2] (times)	**1.3**	1.8	2.5 [5]
Interest coverage – cash flow [2] [3] (times)	**11.1**	6.9	7.4 [4]
Long term debt to debt-plus-equity [1] (%)	**30**	36	43
Net income per common share (dollars)	**0.91**	0.42	0.82
Cash flow per common share (dollars)	**6.71**	5.21	4.63

(1) *Based on balances at December 31.*
(2) *Cash flow is defined in note 14 to the consolidated financial statements.*
(3) *Cash flow plus current income taxes, interest expense and capitalized interest, divided by interest expense and capitalized interest.*
(4) *Ratio reflects fourth quarter 1994 cash flow, interest on long term debt and current income taxes.*
(5) *Ratio reflects December 31, 1994 long term debt divided by four times fourth quarter 1994 cash flow.*

Based on the December 31, 1996 price of $45.60 per common share, Talisman's market capitalization was $5.0 billion. Talisman has not declared a dividend on its common shares since 1991 in order to retain funds for profitable reinvestment. Dividend policy is reviewed annually by the Board of Directors.

Sensitivities

Approximate impact in 1997

(millions of dollars)	Net Income	Cash flow [1]
Volume changes		
Oil and liquids – 1,000 bbls/d	2.0	4.6
Natural gas – 10 mmcf/d	1.6	4.5
Price changes [2]		
Oil and liquids – US$1.00 per bbl	20.6	24.3
Natural gas (Canada) [3] – C$0.10 per mcf	6.7	12.0
Exchange rate changes		
US$/C$ – One cent change [2]	4.8	8.1
C$/£ – 0.03 change	1.2	1.9
Interest rate changes [2] [4]		
1% change in interest rates	0.7	0.5

(1) *Cash flow is defined in note 14 to the consolidated financial statements.*
(2) *The impact of hedging contracts in place at December 31, 1996 has been included.*
(3) *Price sensitivity on natural gas relates to Canadian gas only. The Company's exposure to changes in North Sea gas prices is limited as fixed price contracts constitute a significant portion of sales.*
(4) *The effect on net income and cash flow is mitigated by capitalization of interest associated with Corridor and Ross.*

Financial Instruments

Talisman actively manages its exposure to fluctuations in foreign exchange rates and commodity prices in part through the use of financial instruments. Instruments outstanding at December 31, 1996, are detailed in note 9 to the Consolidated Financial Statements.

In addition to limits established by the Board of Directors, Talisman maintains a system of internal controls to minimize risks associated with its derivatives program and credit risk associated with derivatives counterparties. The Company's derivatives program is reviewed at each Board of Directors' meeting.

Talisman's gross revenues benefit from a weak Canadian dollar relative to the US dollar, as a significant proportion of the Company's revenues are effectively denominated in US dollars. In anticipation of a strengthening Canadian dollar in 1997 and future years, Talisman entered into forward foreign exchange contracts to fix the exchange rate on a portion of future revenues. In 1996, Talisman realized a net gain of $2.9 million (1995 – $3.6 million) from its foreign exchange hedging program.

Talisman's gross revenues fluctuate significantly with changes in commodity prices. Accordingly, Talisman has entered into a number of contracts to hedge against significant price declines. Strong commodity prices in 1996 increased cash flow and pre-tax earnings for the Company by $188.0 million, net of a $19.5 million loss (1995 – gain of $4.7 million) from commodity price hedging activities.

In addition to financial contracts, the Company uses physical contracts to manage prices received and mitigate risk.

Risks and Uncertainties

Talisman is exposed to operational risks inherent in exploring for, developing and producing crude oil and natural gas. A comprehensive insurance program is maintained to mitigate risks and to protect against significant losses, while maintaining certain acceptable levels of risk within the Company. Liability and property insurance is considered adequate and consistent with common industry practice. Talisman also maintains comprehensive programs and contingency plans necessary to control health, safety and environmental risks across its operations which comply with existing legislative and regulatory requirements. Regular audits of operations ensure compliance with applicable regulations and standards. Compliance with health, safety and environmental standards are reviewed at each Board of Directors' meeting. Long term abandonment and restoration provisions have been recorded in accordance with accounting principles generally accepted in Canada.

The Company is exposed to risks and uncertainties inherent in conducting international operations. Canada, the UK, the Netherlands and Indonesia offer stable fiscal regimes and well-developed business environments for the petroleum industry. Certain of the Company's non-core areas are potentially subject to political instability; however, the Company's investment in these areas is not material.

Outlook

The major factors affecting Talisman are production volumes and commodity prices.

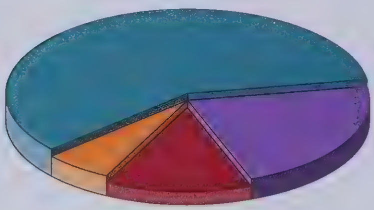
Talisman expects 1997 volume growth comparable to the 16% realized in 1996. The main contributor to growth in 1997 will be a full year of production from Talisman's operated Beatrice, Buchan and Clyde fields in the North Sea, augmented by higher oil and liquids volumes in Canada and Indonesia.

Production in 1998 is expected to increase from known projects such as the Ross oil field development and Corridor Gas Project start up.

Oil and gas prices were higher than expected in 1996, generating cash flow in excess of the Company's expectations. Prices to date in 1997 have been extremely volatile, with WTI prices ranging from US$21 to US$26 per barrel. Alberta spot prices have traded from $1.50 to $3.50 per mcf. Cash flow in 1997 is difficult to predict at this time, given the current volatility in prices.

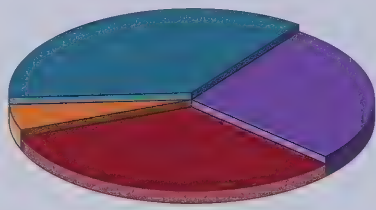
1997 Capital Budget

1996 Exploration & Development Expenditures



Canada	59%
North Sea	22%
Indonesia	13%
Other	6%

1997 Exploration & Development Budget



Canada	36%
Indonesia	32%
North Sea	27%
Other	5%

Talisman plans to spend a record $821 million on exploration and development in 1997. The $264 million increase over 1996 reflects increased spending on major projects such as the Corridor Gas Project, and the Ross, Beatrice, Buchan and Clyde fields.

All major commercial arrangements for the Corridor Gas Project have been executed and construction of the pipeline and upstream facilities is underway. Corridor represents 24% of Talisman's total 1997 capital budget. First production from Corridor is expected in mid-1998, with full production of 110 mmcf/d, Talisman's share, expected by year-end. In exchange for natural gas delivered to the Duri steamflood, Talisman will receive crude oil on an energy equivalent basis.

Planned Indonesian spending also includes additional development on the OK Block and continued work at Tanjung.

In the North Sea, Talisman expects approval for development of the Ross field in mid-1997. First production from the Ross field is expected in mid-1998 at rates of 20,000 bbls/d net to Talisman. Other expenditures include development spending on the Beatrice, Buchan, Clyde and West Brae/Sedgwick fields.

Approximately half of Talisman's Canadian expenditures will be directed at core oil properties, particularly Carlyle and Chauvin. Natural gas expenditures include continued activity in northeast British Columbia and shallow gas development in central Alberta.

Other spending includes drilling four or five wells in Algeria, and continued seismic work in Trinidad and Peru.

Capital programs are reviewed regularly and revised in light of business opportunities and economic conditions.

Talisman is well positioned for growth into the next decade. Ross, Corridor and a strong low-cost portfolio of Canadian oil development projects should lead to an underlying production growth rate of about 15% annually. Talisman has a large inventory of exploration projects which provide additional upside.

TALISMAN'S APPROACH TO CORPORATE GOVERNANCE ALIGNS CLOSELY WITH THE GUIDELINES SET OUT IN THE DECEMBER, 1994 REPORT OF THE TORONTO STOCK EXCHANGE COMMITTEE ON CORPORATE GOVERNANCE IN CANADA.

Composition of the Board of Directors

The Board of the Company is composed of nine directors. Eight directors, including the Chairman of the Board, are independent of management and are otherwise unrelated, that is, free from any interests that could interfere with their ability to act in the best interest of the Company. The President and Chief Executive Officer is the only member of the Company's management who is a director. The Company has no principal shareholder; accordingly, no director is a representative of any particular shareholder or shareholder group.

The Chairman of the Board is specifically charged with responsibility for leading and managing the Board in discharging its responsibilities and acts as the Board's spokesman to management. The composition of the Board, including the independence of the Chairman and his specified role, ensures that the Board is able to function independently of management. The Board believes that it can operate effectively at its current size.

Responsibilities of the Board of Directors

The Board of Directors has explicitly assumed responsibility for the stewardship of the Company. As part of that responsibility the Board ensures that: the Company has established long term goals and a strategic planning process; the principal risks of the Company's business are identified and appropriate systems are implemented to manage those risks; there is sufficient succession planning to manage and monitor the management risk; the Company has a communications policy; and the Company's internal controls and management information systems have sufficient integrity. The Board of Directors has plenary power over all matters not explicitly delegated to a committee of the Board. In particular, it is responsible for approving the Company's debt and borrowing policy and its dividend policy, and it has established authorities regarding the Company's hedging and derivative activities. In addition, prior Board approval is required of all major debt financing agreements, the annual capital expenditure plan, and all acquisitions, dispositions or expenditures exceeding specified limits. The Board of Directors, together with the President and Chief Executive Officer, have developed mandates for the Board embodying the foregoing, and for the President and Chief Executive Officer, indicating limits to management's authority. To assist Board members in performing their responsibilities, the Company has adopted a policy whereby, with the approval of the Governance and Nominating Committee, a Board member may engage an outside advisor at the Company's expense.

Committees of the Board

There are five committees of the Board: the Executive Committee, the Governance and Nominating Committee, the Audit Committee, the Management Succession and Compensation Committee and the Pension Funds Committee. The President and Chief Executive Officer is a member of the Executive Committee and the Pension Funds Committee and is the only inside and related director on these committees. The Governance and Nominating Committee, the Audit Committee and the Management Succession and Compensation Committee are composed exclusively of outside directors. Each committee is composed of four Board members. With the exception of the Executive Committee, for which there are no regularly scheduled meetings, the committees of the Board convene in accordance with an annually developed schedule. Additional committee meetings are convened as required throughout the year.

The Executive Committee is an extension of the full Board and convenes to take action where necessary and where it is not practicable to call a meeting of the full Board.

The Governance and Nominating Committee, together with the Board, develops the Company's approach to corporate governance. The Committee, in consultation with the President and Chief Executive Officer, is responsible for establishing a long term plan for the composition of the Board and for identifying new board nominees when required. In determining appropriate nominees, the Committee considers the strengths, skills and experience level of Board members and the Company's strategic objectives. In addition, an orientation and education program has been implemented to assist new Board recruits. The Committee reviews and determines the compensation to be paid to Board members with a view to ensuring that the compensation reflects the responsibilities and risks involved in being a Director. The Committee is also responsible for regularly assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of each director.

The Audit Committee oversees the Company's internal accounting and financial systems and its controls to ensure that the Company maintains effective internal control systems and adequate processes for detecting risks and control weaknesses. The Committee has direct access to the Company's internal and external auditors and meets separately with each group on a regular basis.

The Management Succession and Compensation Committee is responsible for reviewing succession plans for key management positions within the Company. It also reviews management development and staffing plans, compensation and benefit plans and, in conjunction with the Board, annual performance contracts of the Company's Chief Executive Officer and Vice-Presidents.

The Pension Funds Committee is responsible for approving the investment policy and strategy, and reviewing the performance of the Company's pension plans.

Management Performance

The terms of the mandate of the Board ensures that the Company annually confirms or redetermines its long term strategy and strategic objectives and sets its budget and development plan for the ensuing year. This process produces specific annual goals for the Company which are then further developed into specific contracts for each of the officers of the Company based upon that officer's role in the Company. Through this process, each officer individually (including the President and Chief Executive Officer), and the officers as a whole, are made directly responsible for achieving the annual goals of the Company. A significant portion of the annual compensation of each officer is based upon achieving these Company and individual goals.

Shareholder Communications

Talisman's policy regarding shareholder communications specifically adopts the principles of timely, accurate and efficient disclosure of information concerning the Company to all shareholders. In addition to the required annual, quarterly and timely reporting of information, the Company regularly makes presentations to industry analysts and investors. The Company also meets informally upon request with investors and analysts and its Corporate Communications Department has the specific mandate of responding in a timely manner to all inquiries received from shareholders, analysts and potential investors.

REPORT OF MANAGEMENT

THE BOARD OF DIRECTORS IS RESPONSIBLE FOR THE CONSOLIDATED FINANCIAL STATEMENTS BUT HAS DELEGATED RESPONSIBILITY FOR THEIR PREPARATION TO MANAGEMENT.

The Consolidated Financial Statements have been prepared by management in accordance with accounting principles generally accepted in Canada. If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has ensured that the Consolidated Financial Statements are presented fairly in all material respects. Management has also prepared the financial information presented elsewhere in the annual report and ensured that it is consistent with information in the Consolidated Financial Statements.

Talisman maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for reviewing and approving the Consolidated Financial Statements and Management's Discussion and Analysis and, primarily through its Audit Committee, ensures that management fulfills its responsibilities for financial reporting.

The Audit Committee is appointed by the Board and is composed of Directors who are not employees of the Company. The Audit Committee meets periodically with management, and with the internal and external auditors, to discuss internal controls and reporting issues and to satisfy itself that each party is properly discharging its responsibilities. It reviews the Consolidated Financial Statements and the external auditors' report. The Audit Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The Consolidated Financial Statements have been audited by Ernst & Young, the external auditors, in accordance with generally accepted auditing standards, on behalf of the shareholders. Ernst & Young has full and free access to the Audit Committee.

James W. Buckee
President and Chief Executive Officer

Bruce G. Waterman
Vice-President, Finance and Chief Financial Officer

February 12, 1997

AUDITORS' REPORT

TO THE SHAREHOLDERS OF TALISMAN ENERGY INC.

We have audited the Consolidated Balance Sheets of Talisman Energy Inc. as at December 31, 1996 and 1995 and the Consolidated Statements of Income and Retained Earnings and Cash Flows for each of the years in the three year period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1996 in accordance with accounting principles generally accepted in Canada.

Ernst & Young

Calgary, Canada
February 12, 1997

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

DECEMBER 31

(millions of dollars)	**1996**	1995
Assets		
Current		
Cash and short term investments	**$ 41.1**	$ –
Accounts receivable	**269.6**	201.5
Inventories *(note 3)*	**41.7**	42.8
Prepaid expenses	**9.3**	11.5
	361.7	255.8
Pension plans *(note 4)*	**36.0**	37.7
Other assets	**20.9**	13.3
Property, plant and equipment *(note 5)*	**3,332.6**	2,733.5
	3,389.5	2,784.5
Total assets	**$3,751.2**	$3,040.3
Liabilities		
Current		
Bank indebtedness	**$ –**	$ 6.0
Accounts payable and accrued liabilities	**287.2**	208.5
Income and other taxes payable	**50.5**	10.4
	337.7	224.9
Deferred credits	**29.7**	34.3
Provision for future site restoration	**77.7**	44.6
Long term debt *(note 6)*	**898.7**	906.0
Deferred taxes	**313.4**	204.2
	1,319.5	1,189.1
Contingencies and commitments *(note 7)*		
Shareholders' equity		
Share capital and contributed surplus *(note 8)*	**1,863.6**	1,490.8
Retained earnings	**230.4**	135.5
	2,094.0	1,626.3
Total liabilities and shareholders' equity	**$3,751.2**	$3,040.3

On behalf of the board:

Peter N.T. [illegible]
Director

Stella Thompson
Director

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31

(millions of dollars)	**1996**	1995	1994
Revenue			
Gross sales	**$1,406.9**	$1,011.5	$ 719.6
Less royalties	**224.0**	144.1	129.8
Net sales	**1,182.9**	867.4	589.8
Other *(note 10)*	**29.9**	31.8	23.6
Total revenue	**1,212.8**	899.2	613.4
Expenses			
Operating	**299.5**	245.0	165.5
General and administrative	**56.3**	56.6	40.7
Depreciation, depletion and amortization	**420.6**	369.1	212.1
Dry hole	**65.4**	26.1	32.7
Exploration	**63.5**	50.2	44.4
Interest on long term debt *(note 5)*	**68.7**	86.4	41.0
Other *(note 11)*	**(26.2)**	(30.3)	(17.5)
Total expenses	**947.8**	803.1	518.9
Income from continuing operations before taxes	**265.0**	96.1	94.5
Taxes *(note 12)*			
Income tax – current	**51.3**	10.8	24.0
– deferred	**84.3**	50.5	31.4
Petroleum revenue tax	**34.5**	–	–
	170.1	61.3	55.4
Net income from continuing operations	**94.9**	34.8	39.1
Discontinued mining operations *(note 13)*	**–**	5.7	24.9
Net income	**$ 94.9**	$ 40.5	$ 64.0
Earnings per share *(dollars)*			
Net income from continuing operations	**0.91**	0.36	0.50
Net income	**0.91**	0.42	0.82
Average number of common shares outstanding *(millions)*	**103.9**	96.5	78.0

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31

(millions of dollars)	**1996**	1995	1994
Retained earnings, beginning of year	**$ 135.5**	$ 95.0	$ 31.0
Net income	**94.9**	40.5	64.0
Retained earnings, end of year	**$ 230.4**	$ 135.5	$ 95.0

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31

(millions of dollars)	**1996**	1995	1994
Operating			
Net income	**$ 94.9**	$ 40.5	$ 64.0
Items not involving a current cash flow *(note 14)*	**539.0**	411.6	253.1
Exploration	**63.5**	50.2	44.4
Cash flow	**697.4**	502.3	361.5
Changes in non-cash working capital	**37.0**	(8.9)	(22.2)
Cash provided by operating activities	**734.4**	493.4	339.3
Investing			
Corporate acquisitions *(note 2)*	**(344.9)**	–	(1,856.4)
Capital expenditures			
Exploration, development and corporate	**(564.3)**	(381.8)	(331.1)
Acquisitions	**(218.8)**	(106.9)	(98.2)
Investments	**(6.8)**	–	–
Proceeds of disposition			
Resource properties	**57.8**	99.8	230.4
Investments and other	**1.5**	2.8	–
Changes in non-cash working capital	**14.4**	124.2	(111.7)
Cash used in investing activities	**(1,061.1)**	(261.9)	(2,167.0)
Financing			
Increase in long term debt on corporate acquisitions *(note 2)*	**333.0**	–	925.4
Long term debt repaid	**(795.1)**	(737.0)	(36.7)
Long term debt issued	**453.5**	451.0	63.3
Common shares issued on corporate acquisitions *(note 2)*	**–**	–	899.3
Common shares issued	**366.0**	5.6	2.7
Increase in site restoration provision on acquisition	**20.0**	–	–
Deferred credits and other	**(3.4)**	14.4	(1.6)
Changes in non-cash working capital	**(0.2)**	(5.8)	9.1
Cash provided by (used in) financing activities	**373.8**	(271.8)	1,861.5
Net increase (decrease) in cash	**47.1**	(40.3)	33.8
Cash and short term investments, (bank indebtedness), beginning of year	**(6.0)**	34.3	0.5
Cash and short term investments, (bank indebtedness), end of year	**$ 41.1**	$ (6.0)	$ 34.3

See accompanying notes.

1. Significant Accounting Policies

The Consolidated Financial Statements of Talisman Energy Inc. ("Talisman") have been prepared by management in accordance with accounting principles generally accepted in Canada. A summary of the differences between accounting principles generally accepted in Canada and those generally accepted in the United States ("US") is available in the Company's Annual Information Form which is filed with the US Securities and Exchange Commission under form 40-F.

a) Consolidation

All subsidiaries are wholly-owned and included in the Consolidated Financial Statements. A substantial portion of Talisman's activities is conducted jointly with others and the Consolidated Financial Statements reflect only the Company's proportionate interest in such activities.

b) Inventories

Product inventories are valued at the lower of average cost and market value. Materials and supplies are valued at the lower of average cost and net realizable value.

c) Property, plant and equipment

The successful efforts method is used to account for oil and gas exploration and development costs. Under this method, acquisition costs of oil and gas properties and costs of drilling and equipping development wells are capitalized. Costs of drilling exploratory wells are initially capitalized and, if subsequently determined to be unsuccessful, are charged against income. All other exploration costs, including geological and geophysical costs and annual lease rentals, are charged against income when incurred. Producing properties and significant unproved properties are assessed annually, or as economic events dictate, for potential impairment.

d) Depreciation, depletion and amortization

Capitalized costs of proved oil and gas properties are depleted using the unit of production method. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis.

Successful exploratory wells and development costs are depleted over proved developed reserves while acquired resource properties with proved reserves, including offshore platform costs, are depleted over proved reserves. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for producible reserves. Costs are transferred to depletable costs as proved reserves are booked. At the date of acquisition, an evaluation period is determined after which, any remaining probable reserve costs associated with producing fields are transferred to depletable costs. Costs not associated with producing fields will be amortized over the remaining lease term.

Costs associated with significant development projects are not depleted until commercial production commences. Unproved land acquisition costs which are individually immaterial are amortized on a straight line basis over the average lease term until properties are determined to be productive or impaired. Gas plants, net of estimated salvage values, are depreciated on a straight line basis over their estimated remaining useful lives, not to exceed the estimated remaining productive lives of the related fields. Pipelines and corporate assets are depreciated using the straight line method at annual rates of 7%, and 10 to 33%, respectively.

e) Future site restoration

Estimated costs of future site restoration of oil and gas properties, including offshore production platforms, are provided for using the unit of production method while those of gas plants and facilities are provided for using the straight line method at rates approximating their useful lives but not exceeding the estimated remaining productive lives of the related fields. The provision is included with depletion, depreciation and amortization expense and is based on engineering estimates using current costs and technology and in accordance with existing legislation and industry practice. Expenditures are charged against the accumulated provision as incurred. When a property is disposed of, the associated accumulated provision for site restoration is eliminated and included in determination of the gain or loss on disposal.

f) ***Capitalized interest***

Interest expense associated with major development projects is capitalized until commercial production commences.

g) ***Indonesian royalties***

Indonesian operations conducted jointly with the Indonesian national oil company ("Pertamina") are reflected in the Consolidated Financial Statements based on the Company's proportionate interest in such activities. All other Pertamina interests, other than income taxes, are considered to be royalty interests. Royalties on production from Indonesian properties represent the entitlement of the Indonesian government and Pertamina to a portion of Talisman's share of crude oil, liquids and natural gas production and are recorded using rates in effect under the terms of contracts at the time of production.

h) ***Foreign currency translation***

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Gains and losses on translation are reflected in income when incurred, except for gains or losses on translation of foreign currency denominated long term debt which are deferred and amortized over the expected minimum period to settlement.

i) ***Financial instruments***

The Company enters into forward foreign exchange contracts to hedge anticipated future sales which are effectively denominated in US dollars. Interest rate swap contracts are used to hedge against adverse fluctuations in interest rates. The Company uses various instruments to hedge against unfavorable fluctuations in commodity prices. Payments or receipts on contracts that are designated and effective as hedges are recognized in income concurrently with the hedged transaction. The fair values of these contracts are not reflected in the Consolidated Financial Statements. If the hedge of an anticipated future transaction is terminated or if a hedge ceases to be effective, the gain or loss at that date is deferred and recognized concurrently with the anticipated transaction. Subsequent changes in value are reflected in income. Any instrument that does not constitute a hedge is recorded at fair value with any resulting gain or loss reflected in income.

j) ***Post retirement benefits***

PENSION PLANS

The Company sponsors both defined benefit and defined contribution pension arrangements covering substantially all employees. The cost of defined benefit pensions is determined using the projected benefit method prorated on services and is charged to income as services are rendered. Pension fund assets are measured at market value. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized on a straight line basis over the expected average remaining service life of the employee group. Gains or losses arising from plan curtailments and settlements are recognized in the year in which they occur.

The cost of defined contribution pensions is expensed as earned by employees.

OTHER POST RETIREMENT BENEFITS

The cost of post-retirement benefits, other than pensions, including group life and supplemental health insurance to eligible retired employees, is determined using the projected benefit method prorated on services and is charged to income as services are rendered.

k) ***Petroleum revenue tax***

United Kingdom Petroleum Revenue Tax ("PRT") is accounted for using the life of the field method whereby total future PRT is estimated using current reserves and anticipated costs and prices and charged to income based on current revenues as a proportion of estimated future revenues. Changes in the estimated total future PRT are accounted for prospectively.

2. Corporate Acquisitions

GOAL PETROLEUM PLC

Effective January 11, 1996, Talisman purchased all the issued common shares of Goal Petroleum plc ("Goal") for cash of $276.1 million and long term debt assumed of $56.9 million.

Net Assets Acquired	
Property, plant and equipment	$380.2
Non-cash working capital	(7.9)
Deferred income taxes and other	(27.4)
	344.9
Cash	3.9
Less acquisition costs	(15.8)
	$333.0

BOW VALLEY ENERGY INC.

Talisman purchased all the issued common and preferred shares of Bow Valley Energy Inc. in August 1994. Consideration included the issue of common shares valued at $899.3 million, cash of $626.6 million, and the assumption of $298.8 million in long term debt.

Net Assets Acquired	
Property, plant and equipment	$1,944.2
Non-cash working capital	41.3
Deferred income taxes and other	(129.1)
	1,856.4
Cash	14.4
Less acquisition costs	(46.1)
	$1,824.7

3. Inventories

December 31	**1996**	1995
Materials and supplies	**$36.0**	$33.5
Product	**5.7**	9.3
	$41.7	$42.8

4. Pension Plans

At December 31, 1996, the Company's defined benefit pension arrangements consisted of accrued pension obligations with an actuarial net present value of $64.0 million (1995 – $60.2 million) and pension plan assets with a market-related value of $126.3 million (1995 – $107.6 million). The Company used actuarial reports prepared by independent actuaries for funding and accounting purposes, the most recent of which was prepared as at January 1, 1996.

Net pension expense (credit) [1]	**1996**	1995	1994
Current service costs	**$ 3.3**	$ 3.4	$ 1.8
Interest cost of projected benefit obligations	**4.3**	4.1	3.8
Return on plan assets	**(9.0)**	(8.1)	(8.5)
Net amortization and deferral and other	**1.5**	(0.9)	(3.9)
	$ 0.1	$(1.5)	$(6.8)

[1] *Includes both defined benefit and defined contribution plans.*

At December 31, 1996, the actuarial net present value of the accrued obligation for other post-retirement benefits was $6.1 million (1995 – $6.1 million).

The actuarial net present value of accrued obligations and market-related value of plan assets for defined benefit plans and other post-employment benefits are determined using management's best estimates on a going concern assumption and approximate fair value. The Company bears the risk associated with experience losses from differences between assumed rates and actual results. The Company is also exposed to credit risk associated with the pension asset portfolio. Credit risk is reduced by placing plan assets in trust and through the Company's pension plan investment policy. Plan assets consist of a diverse base of Canadian and foreign cash, short term notes and equity securities and Canadian bonds and debentures. Pension plan assets significantly exceed the present value of accrued defined benefit obligations.

5. Property, Plant and Equipment

As at December 31, 1996	Cost	Accumulated depreciation, depletion and amortization	Net book value
Crude oil and natural gas properties	**$3,356.0**	**$ 990.2**	**$2,365.8**
Production equipment	**1,306.2**	**361.3**	**944.9**
Corporate	**68.7**	**46.8**	**21.9**
	$4,730.9	**$1,398.3**	**$3,332.6**

As at December 31, 1995	Cost	Accumulated depreciation, depletion and amortization	Net book value
Crude oil and natural gas properties	$2,595.7	$ 740.9	$1,854.8
Production equipment	1,126.9	271.6	855.3
Corporate	64.5	41.1	23.4
	$3,787.1	$1,053.6	$2,733.5

In the year ended December 31, 1996, $5.1 million (1995 – nil) of interest expense was capitalized for significant development projects underway in the North Sea and Indonesia.

Included in property, plant and equipment are the following costs which were not subject to depreciation, depletion or amortization:

Undepleted capital at December 31	1996	1995
Acquired probable reserve costs	**$337.6**	$244.7
Development projects	**250.4**	59.0
Exploration costs	**50.2**	46.1
North Sea platform costs	**–**	12.3
	$638.2	$362.1

Acquired probable reserve costs which were not subject to depreciation, depletion or amortization consist of the following:

Acquired probable reserve costs at December 31	1996	1995
Associated with producing fields		
Canada	**$ –**	$ 25.4
North Sea	**73.8**	25.4
Indonesia	**6.1**	9.3
	79.9	60.1
Not associated with producing fields		
North Sea	**257.7**	82.8
Indonesia	**–**	101.8
	257.7	184.6
	$337.6	$244.7

Development costs primarily relate to the Corridor gas and Tanjung waterflood projects in Indonesia and the West Brae/Sedgwick field in the North Sea and are not being depleted pending initial production. At December 31, 1996, this includes $26.5 million (1995 – $15.5 million) of non-capital expenditures associated with the water injection program at the Tanjung Raya field in Indonesia which have been deferred to the earlier of March 31, 1997, or until commercial rates of production are achieved. Thereafter, amortization of deferred non-capital expenditures and depletion of development costs will commence on a unit of production basis.

Exploration costs consist of drilling in progress and wells awaiting determination of proved reserves or commencement of production. The portion of acquired North Sea platform costs which represented unutilized capacity was transferred to depletable costs in 1996 coincident with additional production.

The carrying values of capital assets, including acquired probable reserve costs, are subject to uncertainty associated with the quantity of oil and gas reserves, future production rates, commodity prices and other factors. Future events could result in material changes to the carrying values recognized in the financial statements.

6. Long Term Debt

	1996	1995
Bank Credit Facilities (1996 – 5.96%)(1)	**$148.4**	$ –
Commercial Paper (1996 – 3.38%; 1995 – 6.03%)(1)	**250.6**	307.1
Debentures and Notes		
7.125% unsecured debentures (US$175 million) due 2007	**239.7**	238.9
9.45% unsecured debentures, Series A, due 1999	**100.0**	100.0
9.80% unsecured debentures, Series B, due 2004	**75.0**	75.0
9.18% unsecured medium term notes, due 1998	**50.0**	50.0
9.66% unsecured medium term notes, due 2002	**35.0**	35.0
8.50% unsecured convertible subordinated debentures, due 2000	**–**	100.0
	$898.7	$906.0

(1) *Rates reflect the weighted average interest rate on instruments outstanding at December 31. Rates are floating rate-based and vary with changes in short term market interest rates.*

BANK CREDIT FACILITIES

Talisman has unsecured extendible revolving term credit facilities totaling $800 million, consisting of two $400 million facilities. The term dates of these facilities are June 30, 1997 and December 16, 1997 respectively. Until each term date, the Company may increase or decrease outstanding borrowings at its discretion. Annually, upon agreement between the Company and the syndicate of lenders, each term date may be extended for an additional 364 days.

Facility borrowings are available in the form of prime loans, bankers' acceptances, US base rate loans or London Interbank Offered Rate ("LIBOR") loans. Borrowings at December 31, 1996 consisted of US dollar LIBOR loans.

Each facility expires five years after the term date and must be repaid in equal semi-annual payments beginning six months after the term date.

COMMERCIAL PAPER

Commercial paper is issued in the form of unsecured discount notes for terms that generally do not exceed six months. Commercial paper has been classified as long term debt since the Company has the ability to replace it with borrowings under the revolving facilities and it is management's intent that this debt be continually renewed throughout the next fiscal year.

DEBENTURES AND NOTES

US dollar debentures, unsecured

In 1995, the Company issued US$175 million of unsecured debentures maturing June 1, 2007. Interest is paid semi-annually.

In December 1994, the Company entered into interest rate swap contracts which result in the Company paying interest at a rate of 8.295% in exchange for receiving the three month LIBOR rate on notional principal of US$100 million until May 16, 2005. Based on the LIBOR rate at December 31, 1996, these contracts result in an effective rate of interest on the debentures of 8.65%.

Debentures, series A and B, unsecured
The series A and B debentures are due December 22, 1999, and December 22, 2004, respectively. Interest is paid semi-annually on both debentures. The series B debentures may be redeemed by the Company at any time.

Medium term notes, unsecured
Medium term notes consist of $50 million of notes maturing March 25, 1998, and $35 million of notes maturing March 25, 2002. Interest is paid semi-annually.

Convertible subordinated debentures, unsecured
The debentures were redeemed on June 10, 1996 at their face value plus accrued interest.

The Company's contractual minimum repayments of long term debt in the next 10 years are as follows:

Year	*Required Repayment*
1997	$ –
1998	129.8
1999	179.8
2000	79.8
2001	79.8
2002	114.8
2003	–
2004	75.0
2005	–
2006	–
Subsequent to 2006	239.7
Total	$898.7

Repayments of bank credit facilities and commercial paper have been presented based on the five year repayment term of the December 1997 term date revolving term credit facility assuming no extension.

7. Contingencies and Commitments

Talisman is party to various legal claims associated with the ordinary conduct of business. In the opinion of management, these claims are not expected to have a material impact on the Company's financial position.

The Company has provided letters of credit in the amount of £27.8 million ($65.3 million) as security against future decommissioning costs for certain North Sea fields.

8. Share Capital and Contributed Surplus

Talisman's authorized share capital consists of an unlimited number of common shares without nominal or par value and first and second preferred shares. No preferred shares have been issued.

	1996		1995	
	Shares	**Amount**	Shares	Amount
Common shares				
Balance, beginning of year	**96,679,831**	**$1,411.8**	96,282,419	$1,406.2
Issued during year				
Share issue	**12,000,000**	**363.4**	–	–
Share option plan	**398,450**	**9.4**	397,500	5.6
Redeemed during year	**–**	**–**	(88)	–
Balance, end of year	**109,078,281**	**1,784.6**	96,679,831	1,411.8
Contributed Surplus		**79.0**		79.0
	109,078,281	**$1,863.6**	96,679,831	$1,490.8

Talisman has a share option plan that allows employees and directors to receive options to purchase common shares of the Company. Options granted under the plan are generally exercisable after three years and expire ten years after the grant date. Option exercise prices approximate the market price for the common shares on the date the options are issued. Accordingly, no amount of compensation expense is recorded relating to stock options.

At December 31, 1996, 4,005,150 (1995 – 3,596,500) stock options were outstanding having a weighted average exercise price of $26.47 per common share and expiry dates ranging between May 3, 1997 and May 22, 2006. At December 31, 1996, 999,350 of these options had vested and were exercisable at a weighted average price of $23.67 per common share, with expiry dates ranging between May 3, 1997, and December 21, 2003.

Exercise of outstanding options would not have a dilutive effect on net income per common share.

At December 31, 1996, 4,891,273 common shares were reserved for issuance primarily related to the stock option plan.

9. Financial Instruments

Financial contracts

The following financial contracts were outstanding at December 31, 1996:

A) FOREIGN EXCHANGE RATES

The Company enters into forward contracts to sell US dollars in exchange for Canadian dollars to fix the exchange rate on anticipated future sales which are effectively denominated in US dollars. At December 31, 1996, contracts were outstanding for the following:

Year	Notional Contract Amount (US$)	Weighted Average Contractual Exchange Rate (US$/C$)
1997	$168.0	$0.7267
1998	283.0	0.7288
1999	120.0	0.7635

Subsequent to December 31, 1996, the Company entered into additional foreign exchange forward contracts to sell US$36.0 million in 1998 at 0.7606 US$/C$ and US$60.0 million in 1999 at 0.7654 US$/C$.

B) INTEREST RATES

Interest rate swap contracts, as described in note 6, were entered into as a hedge against the effects of possible adverse interest rate fluctuations on the US dollar debentures which the Company issued in 1995.

C) NATURAL GAS PRICES

Talisman entered into natural gas price swap contracts to fix the price on anticipated 1997 revenues which are price sensitive to the New York Mercantile Exchange ("NYMEX") and Sumas indices. The following contracts were outstanding at December 31, 1996:

Contract period	Notional Contract Amount (mmcf/d)	Talisman receives (US$/mcf)	Talisman pays
January to March 1997	40	$2.62	NYMEX
January to March 1997	50	1.93	Sumas
April to October 1997	30	1.19	Sumas

Talisman also uses natural gas basis swap contracts to hedge against exposure to variations in different indices used to price natural gas sales. Basis swaps outstanding at December 31, 1996 result in Talisman receiving a NYMEX based price in exchange for paying a Sumas or AECO Hub indexed price on 30 mmcf/d until October 31, 1997.

In addition to the above, the Company entered into natural gas price swap contracts which result in Talisman receiving US$2.65/mcf and paying a NYMEX based price on 10 mmcf/d in January through March 1997. These contracts were effectively unwound by subsequently entering into contracts with a different counterparty which result in Talisman receiving a NYMEX based price in exchange for paying US$2.25/mcf on 10 mmcf/d for the same contract period.

D) CRUDE OIL PRICES

Talisman entered into the following crude oil price swap contracts to fix the price of anticipated 1997 revenues which are correlated to the NYMEX index:

Contract period	Notional Contract Amount (bbl/d)	Talisman receives (US$/bbl)	Talisman pays
January to February 1997	32,500	$18.77	NYMEX
March to December 1997	27,500	$18.71	NYMEX

Carrying amounts and estimated fair values of financial instruments

	Asset (liability)			
	December 31, 1996		December 31, 1995	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Debentures and notes	**$(499.7)**	**$(534.4)**	$(598.9)	$(639.0)
Forward foreign exchange contracts	**–**	**14.1**	–	5.4
Interest rate swap contracts	**–**	**(13.8)**	–	(23.2)
Natural gas basis swap contracts	**–**	**4.7**	–	13.6
Natural gas price swap contracts	**–**	**(6.0)**	–	(3.6)
Natural gas option contracts	**1.0**	**1.0**	(3.0)	(6.0)
Crude oil price swap contracts	**–**	**(55.6)**	–	–

Borrowings under bank credit facilities and issuances of commercial paper are for short terms and are market rate based, thus, carrying values approximate fair value. The fair value of debentures and notes is determined by market quotations. Fair values for derivative instruments are determined based on the estimated cash payment or receipt necessary to settle the contract at December 31. Cash payments or receipts are based on discounted cash flow analysis using current market rates and prices.

The fair values of other financial instruments, including cash and short term investments, accounts receivable, and accounts payable and accrued liabilities, approximate their carrying values.

Credit Risk

A significant portion of the Company's accounts receivable are due from entities in the oil and gas industry. Concentration of credit risk is mitigated by having a broad domestic and international customer base which includes a significant number of companies engaged in joint operations with Talisman. The Company routinely assesses the financial strength of its partners and customers, including parties involved in marketing or other commodity arrangements.

The Company is exposed to credit risk associated with possible non-performance by derivative instrument counterparties. The Company believes these risks are minimal as the counterparties are major financial institutions which have at least an 'A' credit rating as determined by recognized credit rating agencies. The Company also limits its total exposure to individual counterparties.

10. Other Revenue

	1996	1995	1994
Pipeline and custom treating tariffs	**$23.0**	$21.9	$14.3
Investment income	**3.9**	8.5	4.8
Marketing income	**3.0**	1.4	4.5
	$29.9	$31.8	$23.6

11. Other Expense

	1996	1995	1994
Gain on asset disposals	**$(25.4)**	$(39.3)	$ (8.8)
Foreign exchange (gain) loss	**(6.4)**	0.5	(4.0)
Other expense (income)	**5.6**	2.6	(4.7)
North Sea office relocation	**–**	5.9	–
	$(26.2)	$(30.3)	$(17.5)

12. Taxes

INCOME TAXES

	1996	1995	1994
Current income taxes (recovery)			
Canada – income taxes	**$ 1.2**	$ –	$ 21.6[2]
– Alberta royalty tax credit	**(1.5)**	(1.5)	(1.9)
– federal tax on large corporations	**2.7**	2.8	2.0
North Sea	**22.1**[1]	2.0	–
Indonesia	**26.8**	7.5	2.3
	51.3	10.8	24.0
Deferred income taxes (recovery)			
Canada	**43.9**	8.4	36.7
North Sea	**36.4**	35.0	10.7
Indonesia	**8.8**	10.2	1.2
Other	**(4.8)**	(3.1)	(17.2)[3]
	84.3	50.5	31.4
Income taxes on continuing operations	**$135.6**	$ 61.3	$ 55.4

(1) *Includes $7.5 million related to unrealized foreign exchange gains which are taxable in the United Kingdom.*

(2) *As Canadian current income taxes were offset by investment tax credits of $21.2 million carried forward, a cash payment was not required.*

(3) *Amount relates primarily to Cuba.*

Income taxes vary from the amount that would be computed by applying the Canadian statutory income tax rate of 43.5% (1995 – 43.5%, 1994 – 44.5%):

	1996	1995	1994
Income taxes calculated at the statutory rate	**$115.2**	$ 41.7	$ 42.1
Increase (decrease) in income taxes resulting from:			
Non-deductible royalties, mineral taxes and expenses	**56.5**	44.0	48.7
Resource allowances	**(49.0)**	(37.5)	(40.6)
Non-deductible depreciation, depletion & amortization	**37.8**	25.2	19.4
Deductible PRT expense	**(14.0)**	–	–
Lower foreign tax rates	**(12.0)**	(7.5)	(3.0)
Provincial rebates and credits	**(5.8)**	(3.4)	(6.7)
Federal tax on large corporations	**2.7**	2.8	2.0
Other	**4.2**	(4.0)	(6.5)
Income taxes on continuing operations	**$135.6**	$ 61.3	$ 55.4

Deferred foreign distribution taxes have not been recorded because, based on current plans, repatriation of funds in excess of foreign reinvestment will not be subject to material amounts of tax.

PETROLEUM REVENUE TAXES

PRT expense in 1996 primarily relates to the North Sea and is comprised of current taxes of $30.2 million and deferred taxes of $4.3 million.

The measurement of PRT expense and the related provision in the Consolidated Financial Statements is subject to uncertainty associated with future recoverability of oil and gas reserves, commodity prices and the timing of future events, which could result in material changes to deferred amounts.

13. Discontinued Mining Operations

Income from discontinued mining operations primarily relates to income tax recoveries. Mining operations were discontinued in 1992.

14. Consolidated Statements Of Cash Flows

	1996	1995	1994
Net income			
Continuing operations	**$ 94.9**	$ 34.8	$ 39.1
Discontinued operations	**–**	5.7	24.9
	94.9	40.5	64.0
Items not involving a current cash flow			
Depreciation, depletion and amortization	**420.6**	369.1	212.1
Deferred taxes (recovery)			
Continuing operations	**88.6**	50.5	31.4
Discontinued operations	**–**	3.0	(17.9)
Dry hole	**65.4**	26.1	32.8
Gain on asset dispositions	**(25.4)**	(39.3)	(8.8)
Deferred credits	**(5.8)**	2.0	(2.3)
Pension plans	**1.7**	(0.6)	(7.3)
Investment tax credits	**–**	–	21.2
Other	**(6.1)**	0.8	(8.1)
	539.0	411.6	253.1
Exploration	**63.5**	50.2	44.4
Cash flow	**$697.4**	$502.3	$361.5
Cash flow per share	**$ 6.71**	$ 5.21	$ 4.63
Fully diluted cash flow per share	**$ 6.52**		

15. Segmented Information

Talisman's activities are conducted in four geographic segments comprising Canada, the North Sea, Indonesia and other international locations. All activities relate to the exploration, development and production of oil, liquids and natural gas.

	Canada			North Sea		
	1996	1995	1994	**1996**	1995	1994
Revenue						
Gross sales						
Oil and liquids	**$366.1**	$286.3	$240.0	**$330.2**	$158.9	$ 61.7
Natural gas	**345.9**	288.9	328.1	**111.3**	92.1	20.6
Synthetic oil	**27.0**	22.0	19.2	**–**	–	–
Sulphur	**1.0**	6.2	(0.2)	**–**	–	–
Total gross sales	**740.0**	603.4	587.1	**441.5**	251.0	82.3
Royalties	**137.6**	104.4	117.4	**19.7**	2.3	1.1
Net sales	**602.4**	499.0	469.7	**421.8**	248.7	81.2
Other	**15.5**	17.9	18.2	**14.4**	13.8	5.1
Total revenue	**$617.9**	$516.9	$487.9	**$436.2**	$262.5	$ 86.3
Expenses						
Operating						
Oil and liquids	**$ 46.0**	$ 42.6	$ 45.0	**$ 77.8**	$ 38.2	$ 18.5
Natural gas	**83.3**	77.8	60.8	**25.1**	24.3	5.9
Synthetic oil	**12.8**	12.9	13.5	**–**	–	–
Pipeline	**3.4**	3.6	3.5	**–**	–	–
Total operating expenses	**145.5**	136.9	122.8	**102.9**	62.5	24.4
Depreciation, depletion, and amortization	**219.5**	216.2	159.6	**163.8**	118.0	36.8
Dry hole	**26.0**	19.1	19.7	**34.7**	–	1.0
Exploration	**33.8**	33.6	30.4	**13.6**	3.9	5.5
Other	**(20.3)**	(45.5)	(37.8)	**(7.6)**	14.7	0.4
Total segmented expenses	**404.5**	360.3	294.7	**307.4**	199.1	68.1
Corporate expenses						
General and administrative						
Interest on long term debt						
Total corporate						
Income from continuing operations before taxes	**$ 213.4**	$ 156.6	$ 193.2	**$ 128.8**	$ 63.4	$ 18.2
Net identifiable assets	**$1,574.3**	$1,461.1	$1,533.6	**$1,693.8**	$1,166.6	$1,314.6
Add corporate						
	$1,574.3	$1,461.1	$1,533.6	**$1,693.8**	$1,166.6	$1,314.6

16. Offer To Purchase Wascana Energy Inc.

On February 12, 1997, Talisman announced an offer to purchase all the outstanding common shares of Wascana Energy Inc. ("Wascana"). Talisman's offer provides Wascana shareholders with the option of receiving $18.50 cash or 0.41 of a Talisman common share for each Wascana share. The offer limits the aggregate consideration to 40% of the Wascana shares being purchased for cash and 60% for Talisman shares. To the extent that either the cash or share option is oversubscribed, the consideration will be prorated to provide aggregate consideration in accordance with these limits. As part of the acquisition, Talisman would also assume Wascana's long term debt which, at September 30, 1996, had a book value of $221.8 million. Total consideration is estimated at $1.7 billion.

Cash consideration of approximately $615 million will be initially financed by a committed unsecured, non-revolving bank credit facility.

Indonesia			Other			Total		
1996	1995	1994	**1996**	1995	1994	**1996**	1995	1994
$225.4	$157.1	$ 48.4	**$ –**	$ –	$ 1.8	**$ 921.7**	$ 602.3	$ 351.9
–	–	–	**–**	–	–	**457.2**	381.0	348.7
–	–	–	**–**	–	–	**27.0**	22.0	19.2
–	–	–	**–**	–	–	**1.0**	6.2	(0.2)
225.4	157.1	48.4	**–**	–	1.8	**1,406.9**	1,011.5	719.6
66.7	37.4	11.3	**–**	–	–	**224.0**	144.1	129.8
158.7	119.7	37.1	**–**	–	1.8	**1,182.9**	867.4	589.8
–	0.1	–	**–**	–	0.3	**29.9**	31.8	23.6
$158.7	$119.8	$ 37.1	**$ –**	$ –	$ 2.1	**$1,212.8**	$ 899.2	$ 613.4
$ 51.1	$ 45.6	$ 15.0	**$ –**	$ –	$ 3.3	**$ 174.9**	$ 126.4	$ 81.8
–	–	–	**–**	–	–	**108.4**	102.1	66.7
–	–	–	**–**	–	–	**12.8**	12.9	13.5
–	–	–	**–**	–	–	**3.4**	3.6	3.5
51.1	45.6	15.0	**–**	–	3.3	**299.5**	245.0	165.5
36.9	34.9	13.6	**0.4**	–	2.1	**420.6**	369.1	212.1
2.7	3.4	1.2	**2.0**	3.6	10.8	**65.4**	26.1	32.7
4.2	7.7	3.6	**11.9**	5.0	4.9	**63.5**	50.2	44.4
1.6	(1.2)	1.4	**0.1**	1.7	18.5	**(26.2)**	(30.3)	(17.5)
96.5	90.4	34.8	**14.4**	10.3	39.6	**822.8**	660.1	437.2
						56.3	56.6	40.7
						68.7	86.4	41.0
						125.0	143.0	81.7
$ 62.2	$ 29.4	$ 2.3	**$ (14.4)**	$ (10.3)	$ (37.5)	**$ 265.0**	$ 96.1	$ 94.5
$395.4	$339.5	$324.6	**$ 29.8**	$ 13.1	$ 29.2	**$3,693.3**	$2,980.3	$3,202.0
						57.9	60.0	57.3
$395.4	$339.5	$324.6	**$ 29.8**	$ 13.1	$ 29.2	**$3,751.2**	$3,040.3	$3,259.3

Five Year Financial Summary

(millions of dollars unless otherwise stated)	**1996**	1995	1994	1993	1992
Balance sheets					
Current assets	**$ 361.7**	$ 255.8	$ 426.0	$ 130.5	$ 55.5
Other assets	**56.9**	51.0	61.2	42.3	65.5
Property, plant and equipment	**3,332.6**	2,733.5	2,772.1	908.5	325.4
Total assets	**3,751.2**	3,040.3	3,259.3	1,081.3	446.4
Current liabilities	**337.7**	224.9	241.4	130.1	58.3
Deferred credits and other liabilities	**420.8**	283.1	235.0	91.0	72.9
Long term debt	**898.7**	906.0	1,202.6	245.8	–
Shareholders' equity	**2,094.0**	1,626.3	1,580.3	614.4	315.2
Total liabilities and shareholders' equity	**$3,751.2**	$3,040.3	$3,259.3	$1,081.3	$ 446.4
Results of operations					
Revenue	**$1,212.8**	$ 899.2	$ 613.4	$ 330.3	$ 191.7
Expenses	**947.8**	803.1	518.9	296.4	177.1
Income before taxes	**265.0**	96.1	94.5	33.9	14.6
Taxes	**170.1**	61.3	55.3	32.4	7.0
Net income from continuing operations	**94.9**	34.8	39.2	1.5	7.6
Discontinued mining operations	**–**	5.7	24.8	24.3	3.6
Net income	**94.9**	40.5	64.0	25.8	11.2
Cash flow	**697.4**	502.3	361.5	189.4	86.6
Capital expenditures	**783.1**	488.7	429.3	178.7	54.4
Per common share (dollars)					
Net income	**0.91**	0.42	0.82	0.43	0.22
Cash flow	**6.71**	5.21	4.63	3.17	1.72

Operations Summary

Years ended December 31	**1996**	1995	1994	1993	1992
Daily average production					
(gross bbls/d except as noted)					
Crude oil					
Canada	**34,169**	31,019	29,801	22,542	13,411
North Sea	**30,675**	16,987	7,114	–	–
Indonesia	**22,621**	18,121	5,919	–	–
Other	**–**	–	473	116	–
Natural gas liquids					
Canada	**7,598**	7,097	5,512	4,810	2,991
North Sea	**2,363**	1,791	538	–	–
Synthetic oil (Canada)	**2,534**	2,527	2,425	1,517	–
Total oil and liquids	**99,960**	77,542	51,782	28,985	16,402
Natural gas (mmcf/d)					
Canada	**557**	581	481	338	210
North Sea	**90**	69	15	–	–
Total natural gas	**647**	650	496	338	210
Sulphur (tons per day)	**1,208**	1,016	646	591	238
Bitumen	**–**	–	–	–	2,757
Average unit prices					
(per bbl except as noted)					
Crude oil					
Canada	**$24.57**	$21.16	$19.00	$17.61	$19.03
North Sea	**27.76**	23.63	22.43	–	–
Indonesia	**27.22**	23.76	22.40	–	–
Other	**–**	–	10.17	7.24	–
Natural gas liquids					
Canada	**21.13**	18.04	16.56	16.18	12.29
North Sea	**21.41**	18.90	17.61	–	–
Synthetic oil (Canada)	**29.09**	23.81	21.71	20.59	–
Total oil and liquids	**25.93**	22.06	19.63	17.49	17.80
Natural gas (per mcf)					
Canada	**1.71**	1.37	1.89	1.68	1.41
North Sea	**3.37**	3.63	3.78	–	–
Total natural gas	**1.94**	1.61	1.95	1.68	1.41
Sulphur (per ton)	**2.28**	16.82	(1.03)	(5.09)	3.56
Bitumen	**–**	–	–	–	7.46

Selected Quarterly Financial Data (Unaudited)

(millions of dollars unless otherwise stated)		Three months ended			
	Total Year	Dec 31	Sep 30	Jun 30	Mar 31
1996					
Total revenue	**$1,212.8**	$ 359.0	$ 288.1	$ 283.6	$ 282.1
Net income from continuing operations	**94.9**	26.4	18.3	10.4	39.8
Net income	**94.9**	26.4	18.3	10.4	39.8
Cash flow	**697.4**	217.9	160.4	150.5	168.6
Per common share (dollars)					
Net income from continuing operations	**0.91**	0.24	0.17	0.10	0.41
Net income	**0.91**	0.24	0.17	0.10	0.41
Cash flow	**6.71**	2.00	1.47	1.49	1.74
Daily average production					
Oil and liquids (bbls/d)	**99,960**	107,905	101,429	95,958	94,443
Natural gas (mmcf/d)	**647**	668	601	654	667
1995					
Total revenue	$ 899.2	$ 241.0	$ 205.1	$ 220.9	$ 232.2
Net income from continuing operations	34.8	2.0	3.7	9.9	19.2
Net income	40.5	3.2	3.7	9.9	23.7
Cash flow[(1)]	502.3	130.3	116.5	117.7	137.8
Per common share (dollars)					
Net income from continuing operations	0.36	0.02	0.04	0.10	0.20
Net income	0.42	0.03	0.04	0.10	0.25
Cash flow[(1)]	5.21	1.35	1.21	1.22	1.43
Daily average production					
Oil and liquids (bbls/d)	77,542	80,690	79,457	72,609	77,356
Natural gas (mmcf/d)	650	661	619	637	681

(1) *Quarterly cash flow and cash flow per share for 1995 have been restated to reflect the reclassification of abandonment expenditures from operating to investing activities.*

Consolidated Financial Ratios

The following financial ratios are provided in connection with the Company's continuous offering of medium term notes pursuant to the shelf prospectus and the prospectus supplement dated May 10, 1996.

The asset coverage ratios are calculated as at December 31, 1996. The interest coverage ratios are for the 12 month period then ended.

December 31		1996
Interest coverage (times)	Income	**4.12** [(1)]
	Cash flow	**11.14** [(2)]
Asset coverage (times)	Before deduction of deferred income taxes and deferred credits	**3.80** [(3)]
	After deduction of deferred income taxes and deferred credits	**3.33** [(4)]

(1) *Net income from continuing operations plus income taxes, interest expense and capitalized interest; divided by interest expense and capitalized interest.*

(2) *Cash flow plus current income taxes, interest expense and capitalized interest; divided by interest expense and capitalized interest.*

(3) *Total assets minus current liabilities; divided by long term debt.*

(4) *Total assets minus current liabilities and long term liabilities excluding long term debt; divided by long term debt.*

1996 Land Summary

	Developed		Undeveloped		Total	
(acres)	Gross	Net	Gross	Net	Gross	Net
Canada	2,075,800	714,720	7,139,346	2,773,598	9,215,146	3,488,318
North Sea	94,712	25,356	2,640,751	621,586	2,735,463	646,942
Indonesia	312,427	136,267	2,210,036	1,082,207	2,522,463	1,218,474
Other (1)	–	–	4,848,253	1,529,679	4,848,253	1,529,679
Total	2,482,939	876,343	16,838,386	6,007,070	19,321,325	6,883,413

(1) *Includes Algeria, Nevada, Trinidad, Peru and New Zealand.*

1996 Drilling Summary

	Exploration				Development				Total			
	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total
Canada												
Gross	13	19	17	49	404	109	43	556	417	128	60	605
Net	10.2	12.4	14.1	36.7	221	47	22	290	231.2	59.4	36.1	326.7
North Sea												
Gross	1	2	5	8	15	5	3	23	16	7	8	31
Net	0.2	0.3	2	2.5	1.2	0.9	0.3	2.4	1.4	1.2	2.3	4.9
Indonesia												
Gross	1	4	1	6	18	–	5	23	19	4	6	29
Net	0.4	2.7	0.4	3.5	9.1	–	2.9	12	9.5	2.7	3.3	15.5
Other (1)												
Gross	3	–	2	5	–	–	–	–	3	–	2	5
Net	1.1	–	0.8	1.9	–	–	–	–	1.1	–	0.8	1.9
Total												
Gross	18	25	25	68	437	114	51	602	455	139	76	670
Net	11.9	15.4	17.3	44.6	231.3	47.9	25.2	304.4	243.2	63.3	42.5	349

(1) *Exploration wells only (Algeria and Nevada). Water injection, source and disposal wells are not included.*

Summary of Proved and Probable Reserves (GROSS BEFORE ROYALTY)

	Year-end 1995	Discoveries, Additions and Extensions	Dispositions and Acquisitions	Revisions and Transfers	Production	**Year-end 1996**
Oil and liquids (mmbls)						
Canada	104.5	23.2	1.5	1.2	(15.3)	**115.1**
North Sea	31.1	4.3	34.1	14.4	(12.1)	**71.8**
Indonesia	32.3	6.3	–	8.7	(8.3)	**39.0**
Proved	167.9	33.8	35.6	24.3	(35.7)	**225.9**
Probable	94.0	14.2	66.4	(29.4)	–	**145.2**
Total	261.9	48.0	102.0	(5.1)	(35.7)	**371.1**
Natural gas (bcf)						
Canada	1,550.4	233.4	(14.3)	(14.2)	(203.9)	**1,551.4**
North Sea	351.4	30.4	48.6	20.9	(33.0)	**418.3**
Indonesia	–	–	–	332.0	–	**332.0**
Proved	1,901.8	263.8	34.3	338.7	(236.9)	**2,301.7**
Probable	1,230.2	377.4	40.4	(503.6)	–	**1,144.4**
Total	3,132.0	641.2	74.7	(164.9)	(236.9)	**3,446.1**
Synthetic oil (mmbls)						
Canada	23.6	–	–	–	(1.0)	**22.6**
Proved	23.6	–	–	–	(1.0)	**22.6**
Probable	36.3	–	–	–	–	**36.3**
Total	59.9	–	–	–	(1.0)	**58.9**
Sulphur (millions of tons)						
Canada	2.9	0.4	–	(0.1)	(0.4)	**2.8**
Proved	2.9	0.4	–	(0.1)	(0.4)	**2.8**
Probable	1.3	0.1	–	(0.4)	–	**1.0**
Total	4.2	0.5	–	(0.5)	(0.4)	**3.8**

Proved Reserves Continuity

	1992	1993	1994	1995	**1996**
Oil and liquids (mmbls)					
Opening balance	39.8	40.5	95.0	167.8	**167.9**
Discoveries, additions and extensions	2.8	11.0	8.8	15.4	**33.8**
Net purchase and sales	0.3	53.8	69.9	0.9	**35.6**
Net revisions and transfers	3.6	(0.3)	12.2	11.2	**24.3**
Production	(6.0)	(10.0)	(18.1)	(27.4)	**(35.7)**
Closing balance	40.5	95.0	167.8	167.9	**225.9**
Natural gas (bcf)					
Opening balance	743.1	734.7	1,267.9	1,852.1	**1,901.8**
Discoveries, additions and extensions	85.1	125.3	186.0	195.3	**263.8**
Net purchase and sales	(24.0)	530.1	564.1	9.5	**34.3**
Net revisions and transfers	7.2	1.4	15.1	82.0	**338.7**
Production	(76.7)	(123.6)	(181.0)	(237.1)	**(236.9)**
Closing balance	734.7	1,267.9	1,852.1	1,901.8	**2,301.7**
BOE (mmbls) [(1)]					
Opening balance	114.1	114.0	221.8	375.1	**381.6**
Discoveries, additions and extensions	11.3	23.5	27.4	36.7	**62.2**
Net purchase and sales	(2.1)	106.9	146.6	1.9	**42.2**
Net revisions and transfers	4.3	(0.2)	15.9	20.7	**81.6**
Production	(13.6)	(22.4)	(36.6)	(52.8)	**(61.5)**
Closing balance	114.0	221.8	375.1	381.6	**506.1**

(1) *Gas converted at 10:1 for Canada and 6:1 for International.*

Five Year Finding and Development Costs

		1992	1993	1994	1995	**1996**	3-year	5-year
Proved reserves additions [1]								
Canada	liquids (mmbls)	6.4	10.5	14.8	14.4	**24.3**	53.5	70.4
	gas (bcf)	92.3	126.7	167.7	231.8	**219.2**	618.7	837.7
Canada (mmboe)		15.6	23.2	31.6	37.5	**46.2**	115.3	154.2
International	liquids (mmbls)	–	0.2	6.2	12.2	**33.7**	52.2	52.4
	gas (bcf)	–	–	33.4	45.5	**383.4**	462.3	462.3
International (mmboe)		–	0.2	11.7	19.8	**97.6**	129.2	129.4
Total	liquids (mmbls)	6.4	10.7	21.0	26.6	**58.0**	105.6	122.7
	gas (bcf)	92.3	126.7	201.1	277.3	**602.6**	1,081.0	1,300.0
Total (mmboe)		15.6	23.4	43.3	57.4	**143.8**	244.5	283.6
Proved net acquisitions [2]								
Canada (mmboe)		(2.1)	106.9	32.5	1.9	**0.1**	34.5	139.2
International (mmboe)		–	–	114.0	–	**42.2**	156.1	156.1
Total		(2.1)	106.9	146.5	1.9	**42.3**	190.7	295.5
Capital spending (millions of dollars)								
Canada [3]								
Exploration		16.4	39.2	90.1	80.1	**82.9**	253.0	308.6
Development		24.2	64.9	144.7	149.4	**228.3**	522.4	611.6
Total		40.6	104.1	234.8	229.5	**311.2**	775.4	920.2
International [3]								
Exploration		–	14.6	36.2	53.1	**62.5**	151.8	166.4
Development		–	20.3	33.2	76.6	**153.0**	262.8	283.1
Total		–	34.9	69.4	129.7	**215.5**	414.6	449.5
Total exploration and development								
Exploration		16.4	53.8	126.3	133.1	**145.4**	404.8	475.0
Development		24.2	85.2	177.9	226.1	**381.3**	785.2	894.7
Total		40.6	139.0	304.2	359.2	**526.7**	1,190.0	1,369.7
Net acquisitions and divestitures [4]		(4.7)	519.0	1,724.2	7.1	**505.9**	2,237.2	2,751.5
Total capital		35.9	658.0	2,028.4	366.3	**1,032.6**	3,427.2	4,121.2
Proved finding and development costs ($/boe)								
Canada		2.60	4.49	7.43	6.11	**6.73**	6.72	5.97
International		–	174.34	5.91	6.54	**2.21**	3.21	3.47
Total		2.60	5.95	7.02	6.26	**3.66**	4.87	4.83
Proved finding, development and acquisition costs ($/boe)								
Canada		2.65	4.79	8.91	5.65	**6.51**	7.31	5.98
International		–	174.34	11.59	7.23	**5.23**	8.17	8.29
Total		2.65	5.05	10.69	6.18	**5.55**	7.88	7.12

(1) *Proved discoveries and revisions only, excluding acquisitions, conventional oil only.*

(2) *Reserve purchases less dispositions, includes asset sales, dispositions, swaps and corporate acquisitions.*

(3) *Exploration and development spending excludes indirect exploration expenses, Syncrude, enhanced oil recovery, Chauvin pipeline and capitalized interest.*

(4) *Corporate and property acquisitions less dispositions.*

Gas converted at 10:1 for Canada and 6:1 for International.

INVESTOR INFORMATION

Share Capital

Authorized: unlimited number of common shares and unlimited number of first and second preferred shares.
Issued: 109,078,281 common shares.

Stock Exchange Listings

Toronto, Montreal and Vancouver – common shares – symbol: TLM

Market Information

	1996	1995	1994
Common shares			
Share price (dollars)			
High	**47.00**	28.75	33.75
Low	**27.375**	20.50	23.00
Close	**45.60**	27.625	23.50
Shares traded (millions)			
First quarter	**34.1**	16.2	20.1
Second quarter	**22.9**	12.9	19.9
Third quarter	**30.7**	13.7	28.7
Fourth quarter	**26.1**	10.6	18.5
Year	**113.8**	53.4	87.2
Year end shares outstanding (millions)	**109.1**	96.7	96.3
Average shares outstanding (millions)	**103.9**	96.5	78.0

Transfer Agent and Registrar

Montreal Trust Company of Canada, Calgary, Toronto, Montreal, Vancouver

Debt

(Trust Agent: Montreal Trust Company of Canada, Calgary, Alberta)
7.125% unsecured debentures
9.45% unsecured debentures, Series A
9.80% unsecured debentures, Series B
9.18% unsecured medium term notes
9.66% unsecured medium term notes
Talisman's long term debt is currently rated as: Canadian Bond Rating Service ("CBRS") – A;
Dominion Bond Rating Service ("DBRS") – A; Moody's Investor Service – Baa1;
Standard & Poor's Ratings Group – BBB+
Talisman's commercial paper is currently rated as: CBRS – A-1; DBRS – R-1 (low)

Investor Relations Contacts

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DIRECTORS AND EXECUTIVE

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Chairman, Talisman Energy Inc.

Donald J. Anderson [3,4]
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Robert A. Bandeen, O.C., [3,5]
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Roy F. Bennett [4,5]
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Human Resources and Corporate Services

M. Jaqueline Sheppard
Vice-President, Legal and Corporate
Projects, and Corporate Secretary

Bruce G. Waterman
Vice-President, Finance
and Chief Financial Officer

(1) *Member of Executive Committee*
(2) *Member of Audit Committee*
(3) *Member of Management Succession and Compensation Committee*
(4) *Member of Pension Funds Committee*
(5) *Member of Governance and Nominating Committee*

CORPORATE INFORMATION

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Jakarta, 12920, Indonesia
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Facsimile: (021) 521-0660

Annual Meeting

The annual meeting of shareholders of Talisman Energy Inc. will be held at 11:00 a.m. on Wednesday, May 7, 1997 in the Crystal Ballroom of the Palliser Hotel, 133 - 9th Avenue S.W., Calgary, Alberta. Shareholders are encouraged to attend the meeting, but those who are unable to do so are requested to sign and return the form of proxy mailed with this report.

Abbreviations

bbls	–	barrels
bbls/d	–	barrels per day
mbbls/d	–	thousands of barrels per day
mmbls	–	million barrels
boe	–	barrels of oil equivalent
mmboe	–	million barrels of oil equivalent
mcf	–	thousand cubic feet
mmcf	–	million cubic feet
bcf	–	billion cubic feet
liquids	–	natural gas liquids
Bow Valley	–	Bow Valley Energy Inc.
Encor	–	Encor Inc.
OPEC	–	Organization of Petroleum Exporting Countries
WTI	–	West Texas Intermediate
LIBOR	–	London Interbank Offered Rate
Goal	–	Goal Petroleum plc
2-D	–	Two-dimensional
3-D	–	Three-dimensional
UK	–	United Kingdom
US	–	United States of America
NYMEX	–	New York Mercantile Exchange
SAGE	–	Scottish Area Gas Evacuation
EAGLES	–	East Anglia Gas and Liquids Evacuation System
Talisman	–	"Talisman Energy Inc." or the "Company" includes subsidiaries of Talisman

Conversion & Equivalency Factors

Imperial		**Metric**
1 ton	=	.907 tonnes
1 acre	=	.40 hectares
1 barrel	=	.159 cubic metres
1 cubic foot	=	.0282 cubic metres

Barrels of oil equivalent have been calculated on the basis of:
domestic gas – 10 mcf = 1 boe
International gas – 6 mcf = 1 boe

Certain statements in this report contain forward-looking statements including outlook on prices, expectations of future production, business plans for drilling or exploration and expectations of capital expenditures, debt levels and royalty rates. Information concerning reserves contained in this report may also be deemed to be forward-looking statements as it involves the implied assessment that the resources described can be profitably produced in the future. These statements are based on current expectations that involve a number of risks and uncertainties which could cause actual results to differ from those anticipated by the Company. These include, but are not limited to, the background risks of the oil and gas industry (e.g., operational risks in exploring for, developing and producing crude oil and natural gas, risks involved in the uncertainty of reserve estimates and estimates relating to production, cost and expense projections and potential costs or expense overruns and health, safety and environment risks), risks in conducting foreign operations (e.g., political instability), price and exchange rate fluctuations and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Additional information on these and other factors which could affect the Company's operations or financial results are included under the headings "Management's Discussion and Analysis – Sensitivities," "– Risks and Uncertainties," and "– Outlook," and in the Company's other reports on file with the U.S. Securities and Exchange Commission.

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